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FIFTH QUADRENNIAL REVIEW OF MILITARY COMPENSATION



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EXECUTIVE SUMMARY

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Executive Summary

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EXECUTIVE SUMMARY

I. INTRODUCTION.

A. PURPOSE. This report is submitted in compliance with Section 1008(b) of Title 37, United States Code which states:

Whenever the President considers it appropriate, but in no event later than January, 1967, and not less than once each four years thereafter, he shall direct a complete review of the principles and concepts of the compensation system for members of the uniformed services. Upon completion of such review he shall submit a detailed report to Congress summarizing the results of such review together with any recommendations he may have proposing changes in the statutory salary system and other elements of the compensation structure provided members of the uniformed services.

The specific tasking for the 1983 Fifth Quadrennial Review of Military Compensation (QRMC) was to review the Uniformed Services retirement system, with its associated benefits, and the Special and Incentive pay system. This review was structured around the following question: To what extent do the existing systems contribute to our national defense? The tasking stated, "To the extent that they contribute, they should be preserved and strengthened. To the extent that they do not, they should be restructured or else be eliminated." The Fifth QRMC was additionally tasked to produce a coherent and logical statement of concepts and principles of Service compensation in relation to national security objectives.

B. SCOPE. Ideally, a review of this type should look at the total Uniformed Services compensation system; however, the recently completed President's Military Manpower Task Force (MMTF) review concluded that:

.... a balanced, capable volunteer Active Force of first-termers and career personnel can be achieved through FY 1987 if the necessary funding support is provided. The Task Force believes that there would be a significant risk of renewed recruiting and retention problems if military compensation falls below competitive levels in FY 1984 and subsequent years.

The main focus of the MMTF review of Service compensation was on the mechanism for making annual adjustments. The current system ties military basic pay adjustments to adjustments for General Schedule employees of the Federal Civil Service; these, in turn, are based on changes in white-collar pay in the civilian sector. The Task Force concluded that the current system is unsatisfactory. It further agreed that the Employment Cost Index (ECI), which measures wage changes across a spectrum

of occupations which are generally similar to military jobs, would be a more appropriate basepoint for military pay adjustments. The Task Force also concluded that the President must have some flexibility to vary the pay adjustment when conditions demand. Using the MMTF analysis as background, the Fifth QRMC began with the assumption that the relative level of compensation in FY82 would be adequate if properly adjusted. The FY82 levels were used by the Fifth QRMC as benchmarks for the analyses supporting its specific tasking.

C. COMPENSATION OVERVIEW. A logical question for any such review concerns the definition and composition of compensation. In the administration of salaries and wages, "compensation" is usually defined as:

Any money, goods, service, or other benefits furnished to or received by a member for services rendered, whether immediately, continuously or on a deferred basis.

Historically, servicemember's compensation for "services rendered" has embodied, to some degree, all the constituent elements of this definition.

1. Composition. There are three major components of compensation. The first is referred to as regular military compensation (RMC). This includes basic pay, housing allowances or housing, subsistence allowance or subsistence, and the associated tax advantages that occur because the allowances are tax exempt (i.e., they are considered as reimbursements of a non-compensatory character). Basic Military Compensation (BMC), which is RMC minus the Variable Housing Allowance (VHA) and its associated tax advantage, is used as a rough approximation of civilian salary. The second component is currently comprised of thirty-eight different Special and Incentive pays. The third component is made up of the supplemental benefits of which the retirement system is the largest. The total compensation package has been the traditional method of remuneration for the servicemember; however, a similar wage and benefits package is a relatively new development in the private sector. It developed fairly rapidly during World War II when, due to wage stabilization, employers sought different means of providing added compensation. This growth is a fundamental development in our labor management history. Today, supplemental benefits make up a substantial portion of the private-sector compensation package which is strikingly similar to, and in many cases modeled after, the servicemember's.

2. Objectives. The preceding definition of compensation and the discussion about the content have universal applicability; however, the purpose, or primary objective, of different compensation systems is their essential distinguishing feature. The foremost purpose of the compensation system for the Uniformed Services is to ensure mission readiness and sustainability. This could be defined in the following way:

The Uniformed Services compensation system should provide inducements and incentives which will help to attract and retain in the nation's Uniformed Services career motivated personnel with the intelligence, leadership and dedication necessary to insure successful accomplishment of the United States national security objectives.

In contrast, civilian employment in our society has as its basic purpose individual economic achievement. Employees do what suits their individual survival and achievement goals best. When those goals are compatible with the goals of the employer, or the goals of the two can be mutually accommodated, the enterprise can thrive, make a profit or achieve its nonprofit goals. Uniformed Service, to the contrary, has the continued safety of the Nation as its sole purpose. While individual aspirations are often achieved through a Service career, the person who undertakes such a career must know that personal preferences will have to be subordinated to the good of the organization, whether it be an infantry squad, the crew of a ship or aircraft, or the entire Nation. It is inappropriate to call service of this kind a "job." It is, and must be, a "way of life."

a. Competitiveness. Large civilian organizations, private or Federal, tend to have relatively structured systems of wages, benefits and perquisites. Compensation is controlled by several factors: how much is required to compete successfully for available labor (going wages); how much an organization is able to pay (profitability); cost of living; and productivity. The level and mix are based on considerations of external equity (competitive scales), internal equity (equal pay for approximately equal work), the conditions of work (location, hours, temperature, noise, hazard, etc.), and manpower management objectives and costs (youth and turnover, experience and maturity). Pay and benefits systems are designed to be competitive in the labor market yet tailored to the particular needs of workers and of specific management systems. These factors also weigh in the design of our Service compensation systems, but there are other unique considerations that also strongly influence them. These are the aspects of the Service way of life that differentiate it from civilian employment. Certainly the Services must compete in the labor market for available talent; however, while most large employers offer jobs, the military requires dedicated service under all conditions.

b. Comparability. Comparability is a principle widely used in setting compensation levels. In the private sector, companies set wages at levels comparable to wages of other companies to be sure that they are competitive. The competitive wage level is commonly called the "going rate." The level of the "going rate," in parts of the economy, e.g., blue collar occupations, is usually based on union negotiations as well as wages among companies of similar size, similar product lines, similar sales volume or revenues, geographic locations, or a combination of these. The standard provided in law for those employees is exact parity with average wages for similar jobs in a broad spectrum of companies

in the private sector. In other parts of the economy, the "going rate" often arises as a result of historic circumstances and becomes adjusted on the basis of the scarcity and/or availability of skilled personnel. Federal Civil Service wages are set on the principle of comparability.

c. Appropriateness of Form. Uniformed Services compensation is paid out of public funds or taxes. The appropriateness of the form and rate of this compensation is debated publicly, in the press and in the Congress. This process determines the amounts the Congress and the taxpayers are willing to pay for Service manpower. The success of the process in producing a useful compensation system in support of force management objectives depends upon a reasonable understanding of the nature of the service to be rendered, the pay and benefits systems used to compensate for that service, and its cost. It is essential that civilian decisionmakers in the executive and legislative branches remain knowledgeable about uniformed service, about the roles and the structure of the major pay and benefits systems that support it, and about the effect on force structure if changes are made.

D. UNIFORMED SERVICE COMPARED TO CIVILIAN EMPLOYMENT. The national leadership should view uniformed service as different from civilian employment in a number of special ways. This relatively complete, one-way control over a "workforce," without internal debate and with the freedom to use it in any way judged necessary to serve the national interest, makes it a military force. In contrast to the private sector, the national leadership must be able to:

- legally require the force to fight anywhere in the world, and have authority to punish those who disobey orders to do so;
- use the force when and as long as it believes appropriate without undue regard to the personal preference of the individuals, and at whatever tasks it requires without rigid conformance to the occupational specialties of the individual used;
- individually "fire" members, despite fully satisfactory performance, in mid-career for any momentary convenience to the government, while not allowing other individuals to leave, even though they may desire to;
- force individual members to retire without regard to personal preferences or family circumstances or to necessary alternative employment, and retain the right to recall them to active duty when the need arises; and
- hold members in an idle status for indefinite and protracted periods and then cast them into whatever operational role is required.

The Nation expects each individual servicemember to accept the opportunities and limitations of such a system. This expectation, and more importantly, the requirement, is for the total dedication on the part of each individual member to the organization and subordination of self to the Nation it serves.

Potential Service recruits considering service or servicemembers debating continued service should recognize that the difference between a service career and a job consists of a prior commitment to relinquish to the organization control over:

- whether, when and how long they will be exposed to the risks of combat;
- whether, when and how often they will have to relocate themselves and their families;
- when, how often and how long they will have to work overtime, and on weekends and holidays;
- when, how often and how long they will have to work at a location separated from home and family; and
- when, how often and how long they will be exposed to the conditions and hazards of field duty for training.

Uniformed service also requires prior forfeiture of the individual's right to quit immediately if the situation is not satisfactory. It likewise involves the risk of loss of job through failure to progress. The Service careerist, unlike individuals in many occupations, does not have the option of remaining in a specific job, at a specific level, for major portions of a working career. Finally, uniformed service is a truncated career, even for those who do succeed. Retirement is compulsory between twenty and thirty years of service. Because of age limitations on entry into service, this means retirement between the ages of about 39 and 50 -- far earlier than the 60 to 65 year age norm in American society today.

The subordination of self to the service, required of the servicemember, is more complete than that of any other profession or calling except perhaps for religious life. The commitment extends to laying down one's life, if necessary. Even in peacetime, service involves going where ordered and doing as ordered, regardless of discomfort, separation from family, and other consequences. It includes being subject to duty 24 hours a day, seven days a week, and subjection to the Code of Military Justice, a special and constant discipline. It involves no choice in the selection of job, supervisor or subordinates. It entails potential hazard to life and limb, and continuing health hazards. Finally, there is no option to quit the job until the term of enlistment or self-commitment is completed.

Command within the Uniformed Services is a unique responsibility. Officers spend much of their careers in assignments with duties and responsibilities which differ little in a management sense from civilian positions; but the officers' entire careers are structured around continuing preparation for command. They are placed in increasingly responsible command positions at various stages of their careers. Command is, in part, administration and direction, but it is more. In combat, command responsibilities extend to the lives of those under the commander, and the exercise of the command may affect the fate of the country. Even in peacetime, the exercise of command has an effect on, and involves consideration of, the lives and wellbeing of subordinates in ways different from those in the civilian workplace.

Americans have made the commitment to this kind of service in the past with the understanding -- the assurance of longstanding practice -- that they and their families would be adequately cared for both during active service and after being retired from active service. The compensation system pay and benefits which support the Uniformed Services personnel system, its management system and its "way of life" must be structured in such a manner that it recognizes the differences from ordinary civilian life. It must have an unusual and extraordinarily durable degree of stability in form and structure because it is one of the few elements in a Service career that can and should be truly stable. Additionally, it must have the flexibility to respond to management requirements in support of national objectives.

This 1983 review of the compensation system for the Uniformed Services is predicated on determining whether or not that system is effectively supporting national security objectives and, thus, also satisfactorily supporting the Service "way of life."

11. CONCEPTS AND PRINCIPLES OF UNIFORMED SERVICES COMPENSATION.

A. CONCEPTS. Any Uniformed Services compensation system should be based on certain underlying principles which, in the aggregate, comprise its philosophy. That philosophy necessarily must be consistent with and reflect the fundamental concept and principles of our Nation's form of government. Compensation should be designed to foster and maintain the concept of the profession of arms as a dignified, respected, sought after and honorable career. The emotional and spiritual satisfactions gained from the dedicated performance of uniformed service should be coupled with compensation sufficient for the individual to maintain a standard of living commensurate with the carrying out of responsibilities which directly affect the security of the Nation. Without basic patriotism on the part of its members, however, there could be no Uniformed Services. At the same time, in peacetime patriotism, by itself, is not an adequate motivation for a Service career.

Considerable research has been performed on individual Service compensation. As a result, the Congressional purpose, legislative history, annual cost, numbers of recipients and various quantitative trends of compensation are well documented. What has not received comparable research attention and thought are the underlying concepts and principles that cause the structure of Uniformed Services compensation to cohere in a logical and self-reinforcing fashion. In short, the relationships between the individual components of compensation and their systemic interrelationships as a coherent structure remain largely implicit rather than explicit. Virtually every aspect of Service activity has explicit doctrines, principles and practices embodied in field manuals, technical manuals and various joint publications. Service compensation is noteworthy in its lack of such an explicit intellectual foundation. The Fifth QPMC, consistent with past major compensation studies, was charged with the development of the concepts and principles of Uniformed Service compensation in relation to national security objectives.

It is prudent to clarify a number of points when dealing with principles. First, principles are value judgments stating what ought to be done and what course of procedure ought to be followed. Second, principles refer to the most basic propositions of a system and, as such, are to be distinguished from the specific policies used to apply them in specific situations. Policies, whether statutory or administrative, are contingent on the vagaries of time, place and national mood. Third, the prescriptive nature of principles can often lead to a category of "subprinciples," more enduring than policies but less basic than principles. The various structural propositions deriving from basic principles are of this nature. An example is that basic Service compensation levels should be comparable to those of the American economy, while Special and Incentive Pays should be competitive, both internally and externally, with manning supply and demand in specific duties. Fourth, an important by-product of explicit principles is the stability of the system affected and the capability of coherent long-term planning.

Fifth, a statement of principles has an educational by-product, making the whole system more understandable both to the Defense leadership and to the forces under their command. It ties together various disparate elements into a consistent, logical structure. It is not necessary that the system as a whole be simple, only that its logical exposition be understandable and credible. No system as large and complex as Service compensation will ever be simple, any more than that of any other large organization. With these matters in mind, the basic principles and sub-principles have been developed.

B. PRINCIPLES.

1. Manpower/Compensation Interrelationship. The first principle underlying the basic philosophy of the Uniformed Services compensation system is that the system must be an integral part of the overall system by which Service manpower is managed. Compensation, by the very nature of its basic purpose, must support the Services' manpower policies which, in turn, support the military, strategic and operational plans of this Nation. If they do not, then manpower imbalances, deteriorating unit cohesion and integrity, poor morale, and a general degradation of discipline and motivation, are likely to ensue. This in turn can frustrate the successful accomplishment of strategic and operational plans in the field, and thus negate our foreign policy objectives. Compensation, therefore, must be synchronized with the rest of the manpower system and not be isolated as a separate part of the national labor market. This basic principle of compensation was implied in the Presidential memorandum establishing the Fifth QRMC in which it was understood that Service compensation is and should remain an integral part of Service activities. The importance of this principle can be appreciated when reviewing the suggestions of various critics of service compensation. These critics view Service compensation as an autonomous system, unrelated to other Service operations, and thus a logical candidate for the supply-and-demand labor market analysis often applied to the private sector by the same critics. (This approach not really used by the private sector itself, since large unions, not the free market, negotiate wages in collective bargaining).

2. Efficiency. The second principle is that of efficiency. The principle of efficiency deals with the concept of economic efficiency. Uniformed Services compensation should be no higher or lower than necessary to fulfill the basic objective of attracting, retaining and motivating a sufficient quantity and quality of Service personnel.

3. Equity. The third principle is that of equity. This principle requires that all servicemembers be allowed to compete equally for pay and promotion according to their own abilities. This principle applies equally to the regular, reserve and retired forces whose combined strength constitutes the backbone of our national security. This principle also deals with the concept of equal pay for substantially equal work under the same general working conditions. This aspect of the equity principle establishes the basis for the two important subprinciples of pay comparability and competitiveness.

a. Comparability. The basis for determining the appropriate pay levels for the Service-specific aspects of the compensation of the Uniformed Services should be comparability with the American economy. This answers the question: "How much should servicemembers be paid?" by answering, "About the same as their approximate counterparts (in terms of function and responsibility) are paid in the American economy." The specific items referred to here are basic pay, basic-pay related items, the allowances and benefits. This also responds to the main reason articulated in international law pertaining to why servicemembers wear distinguishing uniforms, which is to differentiate between armed combatants and noncombatants. This distinction implies the major difference is that members of the Armed Forces are legally liable to armed combat, that this is their distinguishing characteristic, and that whatever specialization for specific duties a member of an armed force may have is secondary to the primary function of armed combat. Hence, the reason that basic pay rates are the same for each grade and longevity step is to recognize this basic function.

Much of the controversy over the comparability principle has arisen because of the different meanings attached to the word and due to the perception that comparability means "sameness" or "exactness". Many consider that comparability implies that Service duties are exactly the same as civilian jobs, and that civilians use and intend the word to mean equal or identical pay. Including the word "substantially" in the definition "equal pay for substantially equal work" recognizes that there are different conditions of employment between any two organizations, and that it would be fruitless to attempt to locate exactly equal work for comparison with Federal civilian workers. The British recognize that an exact comparison between Service and civilian jobs is unnecessary as a condition for using that comparison in setting pay levels for their servicemembers. Quoting from a report on their pay system:

There is obviously no basis for comparing civilian jobs with jobs like infantryman and gunner, for whom there are no civilian comparators; or with pilots, seaman, policeman, nurses, cooks and others with similarly named civilian jobs, but which are frequently very different jobs in civilian life. However, all jobs, whether service or civilian, possess certain common demands for which any employer is willing to pay wages. These demands can be assessed and given values as proportions of a whole job. The important ones like knowledge, mental or physical skills and demand, or responsibility, are obvious, and there are many others, some of which are of little consequence in differentiating between the sizes of jobs. What is intended is that Servicemen should be paid generally what they might fairly expect, were they to apply the knowledge, skill and responsibility of their Service jobs, to jobs required to be done in the civilian life.

b. Competitiveness. Compensation competitiveness is needed to ensure the adequate manning of certain Service specialties. This subprinciple applies to Special and Incentive pays, particularly in peacetime. "Competitiveness" refers to both external (i.e., private market pressures) and internal competition (i.e., those Service duties requiring volunteer manning because of their hazardous, arduous, uncomfortable, long training lead-time and/or high training investment characteristics). Competitiveness includes those bonuses and special pays that can and will be discontinued during major mobilization and wartime, because the competitiveness for attraction would likely be negated by a draft, and competitiveness for retention is nullified through "stop-loss" and retirement denial policies. During peacetime, such Special and Incentive pays are needed for specific duties that are in high demand in the economy, that are inherently more dangerous than most peacetime duties, or that are just uncomfortable and unattractive.

4. Effectiveness. The fourth guiding principle for the Uniformed Services compensation system is that it must operate effectively in both peace and war. This principle suggests that one Service compensation system is required because there will be no time to switch systems in wartime (even if that course were theoretically desirable). Further, any system must be flexible enough to permit the entry and departure of reservists and retirees into the Service in a way that will not confuse their promotion patterns, retirement credit, and various related compensation elements. This has significant implications for any proposal to adopt a salary system, for example. Any Service compensation system must be designed to allow for rapid and smooth expansions and contractions of the force. Service personnel should be allowed to concentrate on their duties without having to adapt to changes in a system that is supposed to support them, not hinder them.

In line with this latter principle, the Uniformed Services compensation system should accommodate mobilization planning, promotion patterns, force levels and training lead-time of the Services. Many proposals for the "reform" of the compensation system ignore mobilization plans and, indeed, the existing structure does so to some degree by requiring Congressional action to terminate or install certain items in the event of mobilization or war. Such times are the least propitious moments to effect the needed changes in a thoughtful manner. It would be far preferable to enact provisions that allow the necessary steps to be taken administratively.

5. Flexibility. The fifth principle underlying the overall compensation system is that it ought to be designed in such a way that is flexible enough to adjust quickly to changing conditions of supply and demand. Here again, there are several subprinciples involved. An effective system cannot be designed without a reasonable specification of the force size and manpower profile that system is to support; i.e., a definitive statement of manpower requirements which has as its foundation reasonable standards.

a. Technology and Tactics. Service compensation should reflect the realities of the high level technology employed by the Services and the combat tactics of today's battlefield environment. It refers to the inevitable time-lag between the realities of the battlefield and the weapon systems designed to support our combat forces, as well as to other support systems such as Service compensation.

b. Supply and Demand. Differing supply conditions (skill and experience profiles) and demand conditions (desired force profiles) among the Uniformed Services, for both the regular and the reserve forces require a system with flexibility and a broad pricing base to satisfy the varying needs of different Service situations. Special and Incentive pays, which are the basic method employed to satisfy this principle are, if nonfunctional, inconsistent with efficient compensation practices.

c. Linkage of Elements. When a rigid linkage of compensation elements exists (as whenever one element, such as basic pay, changes, it automatically causes a similar change in a half-dozen or more other compensation elements), it generally creates inefficiencies because of differing needs served by each element. Such linkages should not be a part of the basic compensation system design, unless the respective elements are clearly driven by the same criterion.

d. Rapid and Equitable Adjustments. The compensation system should be susceptible to rapid and equitable adjustments to reflect changes in the national economy. Servicemembers must receive sufficient compensation to enable them to establish a standard of living which will allow simultaneous discharge of their responsibilities to their country and to their families. The compensation system of the Uniformed Services should, therefore, be related to the state of the national economy so that its members may participate in the gradual rise in the standard of living.

6. Motivational Aspects. The sixth, and last, principle relates to the need to incorporate into the system a relationship between compensation and the effort, or contribution, required of the individual. The basic system, as well as any special or supplemental aspects, should be designed to encourage meritorious performance and advancement to higher responsibilities. There are several associated sub-principles:

a. Supplemental Benefits. The overall supplemental benefits component of the Uniformed Services compensation system should be awarded according to the military value of the member to the Service. This sub-principle provides a guide to the recipients in regard to approximate levels of benefits. Many benefits, however, are (and should be) automatic in their entitlement, such as Dependency and Indemnity Compensation, Death Gratuity, and the group insurance programs. Nonetheless, the criterion of Service value, including liability of recall to active duty in times of national emergency, should govern the eligibility for and level of benefits to the various categories of beneficiaries.

b. Uniqueness. The overall compensation system must recognize the unique characteristics of serving in the Uniformed Services. The very essence of this uniqueness is that the Services can scarcely be manned with the necessary alertness and vitality needed to be able to provide the kind of leadership necessary to win wars or armed conflict unless servicemembers are compelled to leave active service at reasonable ages or if no longer sufficiently competitive. This requires a system of severance and retirement compensation which is designed to meet the many problems of superannuation. The philosophy of meeting this unique problem, which is not only one of age but other factors affecting ability and competence, must make sense to the intelligent citizen who finally pays the cost and should be viewed by most rational people as being "good business" despite the associated cost. The compensation subprinciples which underlie the Uniformed Services retirement system are as follows:

(1) the system should be structured to meet legitimate defense requirements in support of our national security objectives;

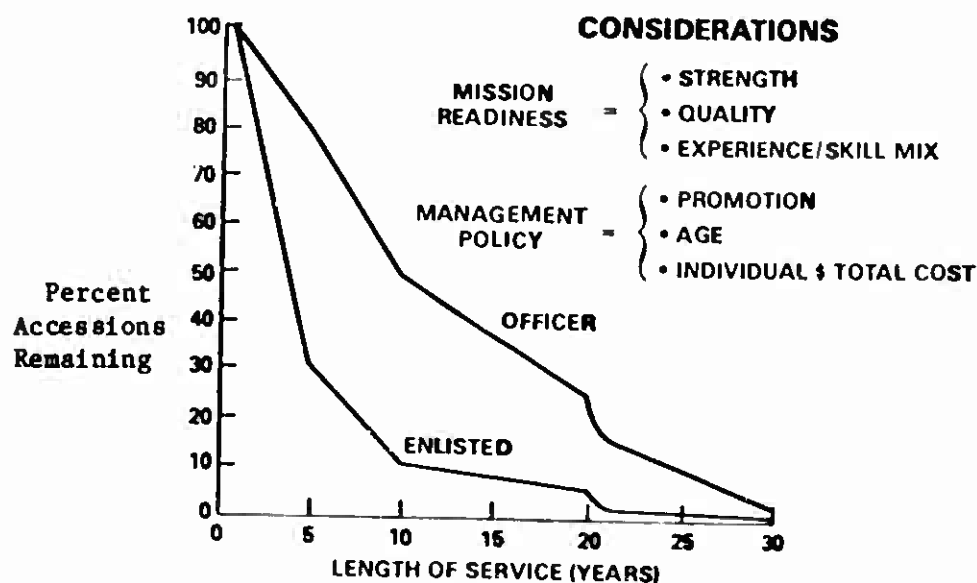
(2) the system should support and complement force management requirements of the Services; and

(3) the system should be integrated into the Uniformed Services compensation system and be structured to meet an income replacement function as well as an income maintenance function acceptable to the Nation.

These are the six principles of Uniformed Services compensation. Together, they form the logical basis which has governed the analysis conducted by the Fifth Quadrennial Review of Military Compensation.

III. MANPOWER FORCE MANAGEMENT CONSIDERATIONS. Ideally, the manpower force profile, defined as the required number and appropriate skill mix in each year of service, would be displayed as a smooth, monotonically decreasing curve over approximately a thirty to thirty-five year span. Further, there would probably be a difference between the officer and enlisted profiles because of the different accession policies, requirements (age, education, quality standards, etc.) and associated initial investments in human capital. Figure III-1 illustrates this difference. The two curves are reasonably representative of actual desired profiles.

Figure III-1
Desired Force Profiles



Unfortunately, the actual manpower inventory and force profile for any given year does not look like this ideal. The reasons for this underscored the reasons why Service manpower force management is so unique and difficult, and why it takes a measure of planning, insight and experienced judgment well beyond that required in any civilian public or private organization. The fundamental reason is that the Service manpower and personnel system is essentially a "closed system" in which lateral entry of non-prior service personnel is rarely utilized. This is an area where many civilian "personnel experts" take issue with Service force management policies and resultant costs. However, the historical evidence within the profession of arms supports the requirement of the "closed system" for the acquisition, development and maintenance of a properly trained and experienced force of careerists. It is this career force, together with the pretrained, prior active duty and reserve force servicemembers, that form the nucleus of the mobilization base and provide the ability to expand to total wartime manpower mobilization. In short, it has taken, and will in the future take, both a career force and an influx of new and prior-service members to successfully accomplish our security objectives and defend this Nation. It is the peacetime maintenance of the career force that is fundamental to this preparedness, but yet, it is so difficult to achieve because of the very nature of a democracy.

Figure III-2
FORCE STRUCTURE
DOD OFFICERS

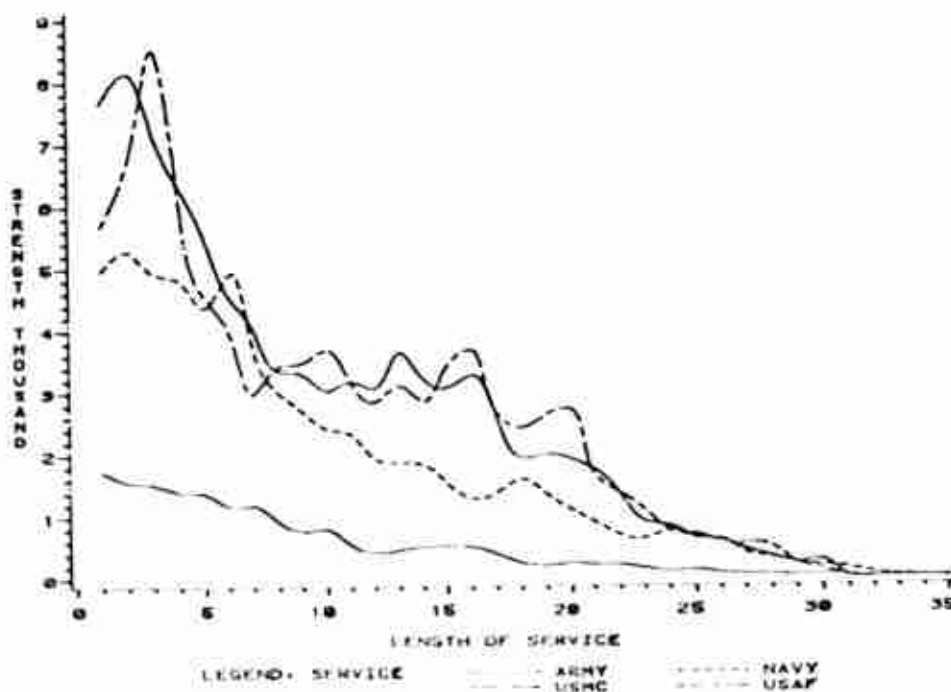


Figure III-2 shows the actual FY82 individual Service officer force profiles. It should be clear from an examination of these figures that they are very different from the ideal. The major fluctuations are a direct result of changing manpower ceilings following armed conflicts (Vietnam) where it was necessary to reduce the force rapidly. This required encouraging and letting experienced personnel separate or retire and also reducing accessions below that required to maintain a smooth continuous flow in future years. Further aggravating these fluctuations are changes in the national economy and civilian employment opportunities, societal attitudes about the Service, and the continued sawtooth pattern of maintaining Service compensation at the "right" comparable and/or competitive levels as perceived by the servicemembers themselves. The recent Presidential Military Manpower Task Force reinforced that aspect in stating the need to adequately fund the Service basic pay, allowances and special pays if we are to maintain our required force size. This degree of fluctuation is greatly amplified as one breaks the aggregate force into the over 1,500 different skills, ratings and codes that comprise the total manpower needs. Further, the different rates of retention among these different skills, together with a continuously changing character of the mix required to keep pace with the introduction of new technology and associated weapon systems, add yet another dimension of difficulty.

This is an oversimplification of the Service manpower and personnel force managers' problem. But, it does underscore the reason why Service compensation, which is just one of the tools by which the force is managed, should exhibit as high a degree of stability and thus help counter the many other factors over which there is little or no control. A system of pay and allowances should represent an equitable earnings expectation for the servicemember. Special pays should be configured to overcome unique problems and needs. Finally, a system of supplemental benefits should be as consistent and stable as possible. This kind of Service compensation system will provide a useful and productive addition to force management leadership. Most importantly, it should provide the necessary environment in which professional servicemembers can discharge their duties without having to worry about their ability to adequately care for themselves and their families.

IV. THE RETIREMENT SYSTEM.

A. PURPOSE. The fundamental purpose of the Uniformed Services retirement system, strongly supported by the Fifth QRM, is to support and complement the manpower force management requirements of the Services in order to meet national security objectives. It is designed to help ensure that the following vital needs are fulfilled:

1. To maintain young, vigorous and mission-ready forces capable of operating efficiently both in peace and war by providing for a continuing flow of officers and enlisted personnel through the Services' required personnel structures.

2. To establish the choice of a career in the Uniformed Services as a reasonably competitive alternative by providing a measure of financial security after release from active or reserve duty (retirement) for servicemembers and their survivors.

3. To support a mobilization base of experienced personnel subject to recall to active duty during time of war or national emergency.

B. SCOPE. The current Uniformed Services retirement system consists of a non-disability retirement system for extended active duty of 20 years or more, a National Guard and Reserve non-disability retirement system for qualifying members of the Reserve Components, and a disability retirement system for active duty members and members on active duty for training who are determined to be unfit to perform the duties of their office or grade because of a physical disability. There is no vesting of retirement benefits for members of the Uniformed Services who do not meet the prerequisites for an immediate annuity, but there is a system of non-disability and disability severance pays to provide a lump-sum payment to certain members who are involuntarily discharged short of retirement eligibility. The system of severance pays is separate from the retirement system, although it is clearly integrated in terms of eligibility criteria. These payments assist the former members in readjusting to civilian life.

C. METHODOLOGY. This study of the Uniformed Services Retirement system and its associated benefits was intended to determine the extent to which the existing systems contribute to our national security and, on the basis of that determination, to recommend whether they should be preserved, strengthened, restructured or eliminated. Technical analyses of the existing system and an extensive number of alternative systems were conducted. The results of these analyses provided a sound basis against which to assess possible alternatives; several were selected as prime candidates for more extensive sensitivity analyses. This examination found that the current system can be restructured and strengthened to provide a stronger basis for force readiness.

D. OBSERVATIONS. In the course of evaluating the retirement system, the Fifth QRMC made a range of observations which will be summarized here. This should serve several purposes: first, to draw attention to those aspects of the current system which, with minor changes in policy or legislation, should be modified; and second, to provide a background for assessing the alternatives analyzed by the Fifth QRMC. In reading these observations, the fundamental purpose of the Uniformed Services retirement system should be kept in mind.

1. Principles. To address whether the Uniformed Services retirement system is effectively supporting our national security objectives, an understanding of specifically what it is intended to accomplish and an examination of its past performance was first required. The predominant criticism of this system over the past thirty years is that it has become too expensive. This criticism has focused on general aspects, such as an early retiree age with full benefits, full protection from inflation (indexing), its non-contributory nature, possible inequities to persons separating, and lack of coordination with social security. The basis of this problem has been known for some time but is generally ignored by the critics. It lies in the changes that have taken place since World War II in Service force management policies, in the size of the Uniformed Services which the United States has found necessary to maintain, and in the increases in the national inflation rates. In an evaluation of the current system, the basic principles and policies upon which it is based had to be kept in mind. The principles which support the Uniformed Services retirement system are compatible with and are a logical extension of the six basic principles of the total Service compensation system. These six principles, outlined in the Fifth QRMC Executive Summary, Section II basically require the system to:

- be an integral part of overall force management;
- achieve economic and military efficiency;
- achieve equity;
- be effective in peace and war;
- have sufficient flexibility to adjust to supply and demand and the national economy; and
- provide a sufficient motivational basis for a full career.

There are three underlying principles of the Uniformed Services retirement system and associated policies. It must be:

a. Structured to Meet Defense Requirements. The system should be structured to meet legitimate defense requirements in support of our national security objectives. Out of this principle flows an appropriate policy premise that the retirement system is interrelated and inextricably linked with both the force management system and the compensation system.

b. Supportive to Service Force Management Requirements. The retirement system should support and complement force management requirements of the Services. In this regard, the Service retirement system is similar to other retirement systems to the extent that each is structured to meet the objectives of an institutional or corporate entity. Overall requirements determine organizational objectives; objectives dictate personnel management requirements, which, in turn, determine the nature of a retirement system. Without commonality among organizational requirements, it does not logically follow that retirement systems must be similarly structured. Further, the retirement system must be structured to act as an incentive to each member to serve the maximum length career consistent with, and permissible by, Service requirements. The member should not be penalized if the requirements of the Services result in a mandatory retirement.

c. Integrated into the Compensation System. The system should be integrated into the Uniformed Services compensation system and be structured to meet an income replacement function as well as an income maintenance function acceptable to the Nation.

2. Background. As background to the present review, the Fifth QRMC considered legislative history, the results of previous studies and an examination of funding methods. Comparisons of the Uniformed Services retirement system to those of foreign militaries and the U.S. private sector were also made. In addition, the mobilization aspects of the system were assessed.

The legislative history clearly supports the primary purpose of the retirement system by providing consistent non-disability and disability retirement provisions integrated with selective personnel promotion policies. The last major legislative modification in this process was the Defense Officers Personnel Management Act (DOPMA). No comparable legislation has been needed or enacted for the enlisted personnel; Congress has chosen to have the Services manage them through their respective administrative and reenlistment policies. The intent of the Reserve Components retirement provisions, initiated in 1948, was to provide an incentive for their members to serve longer. The final and more recent legislative concern has been the increasing retirement cost. The post-retirement recomputation of retirees' pay based upon the new active duty pay tables gave way in 1963 to using the Consumer Price Index (CPI). This action was intended to reduce cost. In the process, the Civil Service and Uniformed Services systems were linked. The rising of the CPI has, in some years, caused the retiree adjustment to exceed the capped, active duty pay adjustments. Congress has actively considered limiting the post-retirement adjustments to less than the full CPI, again, as a means of reducing retirement costs. This current Congressional intent was integrated into the Fifth QRMC analyses because of its potential impact on future retention.

Nine major studies over the past 35 years have recommended changes to the Uniformed Systems retirement system. Although each study made different assumptions, several themes are common to all. In all

cases, the studies proposed to reduce benefits and implied that the current system was too expensive. While the First QRMC (1967) did propose member contributions, all subsequent studies, including this one, have concluded that the system should be non-contributory. Most of the studies have proposed vesting, generally at about 10 YOS, but with the annuity deferred to a specified age (generally 60). While proposing different payment formulas, all studies assume severance pay for involuntary separation. Seven of the nine major study proposals include varying social security offsets. With the exception of the recent President's Private Sector Survey on Cost Control (Grace Commission), retirement benefits were assumed to be "grandfathered" and used the full CPI as an adjustment mechanism. It is important to note, however, that none of these previous studies have satisfactorily analyzed the impact of their proposed modifications on the Service manpower requirements.

There has been a significant growth in the non-disability retirement budget outlays over the past 30 years. The cost growth was not caused by any change in the officer/enlisted retiree mix (a higher percentage are enlisted personnel today); paygrade differences at the time of retirement (up slightly); life expectancy increases (will impact in the future); or the establishment of enlisted paygrades E-8 and E-9. The four primary causes, in the order of magnitude, have been:

- Inflation, which averaged 5% per year, caused 55% of the increase (\$6.6 billion);
- Wage growth (basic pay increases), which averaged 1% real growth per year, caused 21% of the increase (\$2.6 billion);
- A retired population increase of elevenfold caused 19% of the increase (\$2.1 billion); and
- Retired pay adjustments caused 5% of the increase (\$0.6 billion).

The growth rate of both the retiree costs and the retiree population have decreased and will continue to do so in the future, assuming a relatively constant size and distribution of the Total Force. Inflation, based on the assumption that the annual rate of inflation will be 5%, causes the dynamic dollar cost to rise. In fact, this inflation rate, used in the retirement cost calculations, doubles the normal cost percentage (from 25.85% to 50.71%). An examination of the individual servicemember cohort groups for both size and shape (annual continuation rates) revealed that there is no projected retiree bulge resulting from Vietnam similar to that from World War II and Korea. It does, however, along with other data, indicate a significant increase in the active enlisted continuation rates of the mid-1970's cohort groups. This is now causing a needed growth in the career forces (5-30+ YOS) and, if sustained, will eventually increase the current projections of annual retirees. It also must be controlled to avoid undesirable fluctuations in the "closed" personnel system force profile. The number of retirees

assessment found the Marine Corps program to be the most advanced and credible; the Army and Navy programs followed, in that order. The Air Force program was determined to be the least developed. The general NDU observation was that a higher degree of uniformity among the Services is required. A July 1983 Directive (DODD 1352.1) is intended to establish this uniformity.

Another National Defense University (NDU) study, conducted for the Fifth QJMC at JCS request, compared the Uniformed Services retirement system with those of six nations (Australia, Canada, the Federal Republic of Germany, Japan, Great Britain and the Netherlands). The study reached a number of broad conclusions:

a. The Uniformed Services retirement system of the United States is uniquely structured to provide manpower assets for national mobilization, unlike the comparison countries which do not maintain worldwide commitments.

b. Retired foreign military personnel, with the exception of the Federal Republic of Germany, are not mobilization assets.

c. The comparison countries are generally committed to a philosophy of democratic socialism in which military retirement is integrated into comprehensive state welfare programs, thus making comparisons of actual value extremely difficult.

d. Foreign military retirement systems are primarily designed to augment old-age pensions rather than to be multipurpose; i.e., recruitment and retention incentives, deferred compensation and current pay for mobilization recall.

e. There are minimal differences between the logic used in establishing eligibility requirements in the United States and in the comparison countries; however, specific details and compensation amounts vary widely.

A recent GAO review of foreign military retirement systems made a number of the same general observations as the NDU study. The GAO also found similarities between the components of those systems and that of the Uniformed Services. However, the details of these foreign systems are quite different and less favorable to the retiree than in the Uniformed Services. Both the NDU and GAO studies stated that comparisons are indicators of trends and concepts which could assist decision-makers in establishing realistic retirement system modifications.

Comparative analysis with private-sector old-age pension programs revealed that the Uniformed Services retirement system is between 1.2 and 2.0 times more expensive than the average of a large and varied sample of private-sector plans. This comparative analysis was based on data developed from the same funding methods, looking at each

system at at the same point in time, and using the same assumptions (economic, demographic, etc.) for all plans. A number of earlier comparisons conducted by other agencies, including the recent Crace Commission, were reviewed by the Fifth QPMC. All were found to be incomplete or flawed in their methodology and results. The most recent Crace Commission retirement proposal has an approximate normal cost percentage of less than 10%. This is significantly lower than the average comparable private-sector plan.

Additional Fifth QPMC comparative work estimated the individual retiree's lifetime benefit. This work was based on the same assumptions stated by the Crace Commission; that the Uniformed Services retirement system should be better than the best private-sector plans, and that it was not appropriate to link it with, or compare it to, the Civil Service plan. The Civil Service plan was viewed by the Crace Commission as being comparable to the private sector, the Uniformed Services retirement system was not. For the same terminal salary levels (for the Services the measure was basic military compensation (BMC)) the servicemembers' lifetime retirement benefits for a 20-YOS retiree are about 30% higher than the 90% percentile private-sector retiree. The 30-YOS Service retiree benefits are about 15% higher.

The Fifth QPMC review of the historical and current purpose of the Uniformed Services retirement system, along with an assessment of the performance of that system over the last thirty years, reveals that it has strongly supported its intended purpose. Rising costs, which are of continuing concern, were shown to be primarily the result of inflation, wage growth and a steep, one-time rise in the retiree population. Assuming a constant total force size, the rate of growth should significantly decrease. However, an inflation rate of 5 percent will keep retiree costs rising in consonance with all other costs within the economy, even though the real growth has been significantly reduced. It is clearly evident that the retirement system is a powerful incentive for a servicemember to continue for a full career. The strength of this pull seems to play a predominant role from somewhere between the 8th and 12th YOS depending upon whether the servicemembers are officer or enlisted and the skills or specialties in which they are serving. This is evident in both the active and reserve forces, except possibly for the enlisted reservist, whose survival rate to retirement is only 20% of that of the active duty enlisted member. Overall, the Reserve Components retiree population is still maturing. Although its cost is only about 10 percent of the total retirement costs, it requires a careful analysis, particularly if there will be any future redistribution of Total Force strengths. This is true not only for potential costs, but from the viewpoint of the overall balance and flow of people into the active and reserve forces needed to satisfy the total manpower requirements. The active and reserve retirement systems must be complementary, not competitive.

3. Method of Funding. The method of funding any retirement system can be characterized as either intergenerational (pay-as-you-go) or advance funding. The intergenerational funding approach charges a future generation of employees for the retirement benefits for current employees. The advance funding approach accounts for the cost of future retirement benefits during the working lives of employees. The Federal Government requires private-sector employers to use the advance funding approach for a very good reason -- a given organization may go out of business. When that happens, the employer should have developed a pension fund sufficient to pay off benefits earned to the date of termination. The Government also requires corporations to contribute annually to an insurance fund to cover cases of bankruptcy and default.

The current Uniformed Services retirement system is an inter-generational system. The FY83 cost, expressed as a percentage of the FY83 basic pay payroll of \$30 billion, was about 53% or \$16 billion. Beginning in FY85, the Department of Defense is required by Public Law 98-94, DoD FY84 Authorization Act, to fund Service retirement costs using the advance funding concept and an accrual accounting technique. The law did not require the Coast Guard, Public Health Service (PHS) or the National Oceanic Atmospheric Administration (NOAA) retirement program to use this new funding concept.

The use of an advance funding calculation (aggregate entry-age normal cost method), and an accrual accounting funding system, has the advantage of reflecting in current budgets the impact of manpower and compensation policy and force structure decisions on retirement costs. It also insures sufficient funds for making timely benefit payments, without the need for annual appropriations. A further effect is to avoid undue emphasis on immediate retirement benefit cuts that generate short-term savings. The FY82 normal cost percentages applicable to the basic pay for DoD and non-DoD Services are 50.7% for DoD, 40.9% for the Coast Guard, 55.5% for PHS and 65.6% for NOAA. The latter two Uniformed Services are composed only of officers.

4. Analysis. Despite a great deal of evidence suggesting that the retirement system is a powerful incentive in support of our national security objectives, meaningful and conclusive analysis of the relative efficiency of the system could not be undertaken using the past longitudinal population data and associated costs. To accomplish this required a prospective analysis using definitive statements of manpower requirements. These requirements, together with observed servicemember behavior and known conditions of service and compensation, had to be coupled with hypothetical changes in the compensation system to determine if the required manpower and mission readiness could be better obtained or obtained at less expense.

To review the current retirement system and any modifications to it in relation to national security objectives, it was imperative to view the Service manpower force structure as a total system. To measure the degree to which a change in the retirement system would affect

the force structure, all aspects of that structure (strength, gains, losses, experience distribution, etc.) and all costs (gain-related costs, maintenance costs, and loss-related costs, to include retirement costs) were evaluated. The Services specified how they would like to separate/continue people over a full career period. This was done in a steady-state mode for a Service manpower level fixed at the FY82 ceilings and configured internally by the Services on the basis of the previously established FY82 career field and skill level requirements. The grade structure for all cases of this analysis was fixed at that specified by current law and internal DoD/Service policies for both officers (i.e., DOPMA) and enlisted (i.e., specified "Top 6"). Fiscal Year 1982 was chosen as the benchmark year because it was the most recent year for which actual data existed. The quality of the QRMC analyses is to a large extent dependent on the quality of the data provided by the Services; i.e., the desired force structures.

The required Service manpower force structure was described by the total manpower strength and the strength distribution -- by grade, skill, YOS and community (officer, enlisted, warrant). The strength level was held constant at the FY82 levels as were the grade, skill and community distributions. The only element which varied was the year-of-service profile, or shape, of the force structure. This shape was determined by the retention rates of the personnel within the system. Retention rates, in turn, were related to the difference in compensation available by staying in the Service compared to leaving the Service for the civilian sector. While retention is a function of many factors other than just differences in compensation and few individuals make such a finite comparison of total earnings, previous studies have shown that the historic relationship between retention and expected compensation is sufficiently strong and consistent that it can provide a valid basis for these predictions. This relationship has been used by the DoD in recent years to support compensation requirements. However, like all models, the results should be used only as indicators of the magnitude, direction and relative ranking of alternatives.

To evaluate the many different retirement alternatives, an extensive network of computer models and support programs was constructed. These included the Defense Manpower Static Model (DMSM), the Annualized Cost of Leaving (ACOL) model, and the Military Retirement System Projection and Actuarial Valuation Model (GORGO). Beginning with Service steady-state force structures constrained to FY82 force levels, the models and their related interface programs proceeded through: (1) a calibration of retention to the current compensation policies; (2) projection of new force profiles in response to changes in compensation policy, i.e., retirement and or Special and Incentive pays; (3) development of new retention rates, promotion flow rates and loss rates necessary to support the new force profile; and (4) evaluation of total lifecycle costs of the force structure associated with the alternative compensation policies. The new force profiles were then compared with the base case force structure differences noted, and compensation adjustments made. The Fifth

QRMC has a high level of confidence in the ability of these models to correctly project the nature of the changes; however, the absolute values were and should be used with caution.

Several elements of data from which to make predictions concerning personnel retention behavior patterns are required by the Annualized Cost of Leaving (ACOL) model. In the ACOL model, the strengths by grade and year of service are used to reflect the opportunity to receive pay in that grade and year of service. Seven-year average retention rates covering FY76-FY82 were developed by the Defense Manpower Data Center (DMDC) for use by the Fifth QRMC. These retention rates, while theoretical, encompass a period of time where both significant turbulence and stability have occurred with the current active force. Also, these are over the longest possible period of draft-free Uniformed Service force management policies; the retirement system is a long-term management consideration. Because the boundaries on some occupational groups provided by the Services are not identifiable in the DMDC data base, occupational groups were developed for analysis in the ACOL model.

The effects of any changes to the retirement system were evaluated in terms of their resultant impact upon Service force structures which enable the Services to fulfill their various missions in support of national defense. The analyses flowed from the initial force structures, which formed a reference base, through special issues such as vesting, social security integration, force quality and occupational impacts. The analyses also took into consideration the effects of any changes to the retirement system upon the reserve forces, disability retirees and the survivor(s) of the retirees. Full consideration was given to force readiness by ensuring that any retirement alternatives proposed would provide the necessary incentive for quality servicemembers to remain on active duty, thereby ensuring that each Service's requirement for mature leadership was maintained while at the same time providing the necessary blend of youth and vigor. Full cognizance was given to the value of the retirement system from the servicemember's viewpoint. The needs of the Service and the servicemember were always weighed and balanced against the requirements to meet the manpower objectives dictated by our national security objectives.

The basic approach in the analysis of retirement alternatives was to evaluate how the Services should allocate personnel dollars to maximize mission readiness and sustainability. Dollars are allocated either to current compensation (pay/allowances) or to deferred compensation (retirement). In evaluating retirement alternatives, the Fifth QRMC's task was to determine if mission readiness and sustainability could be improved or sustained at current levels by a redistribution of some portion of the retirement benefit to either an earlier timeframe within a retiree's lifespan or to the current pay that a servicemember received while on active duty. Phrased differently, how could the total manpower cost be spent to optimize mission readiness and sustainability? If the same or an improved level of mission readiness could be sustained by restructuring retirement dollars, then careful consideration to implementation of changes is required.

The retention modeling analyses focused on achieving mission readiness after observing the impact on the long-term or steady-state Service force structures from alternative adjustments to current levels of retired/retainer pay. All alternatives to the base case used the "high-three" (HI-3) averaging of basic pay in determining the retirement annuity. This identified the previously undefined force impact of the HI-3 change and provided the opportunity to correct for it. The kinds of adjustments to the current retirement system evaluated included:

1. Multiple year (HI-3) averaging of basic pay for retired pay.
2. Modified multiplier for years of service.
3. Pre-30 YOS (early retirement) retired pay adjustment.
4. Cost-of-living adjustments (indexing).
5. Changes in vesting.
6. Coordination with social security.
7. Member contribution.
8. Combinations of the above adjustments.

A range of possible changes to the current method of computing retired pay was formulated. The changes were both in the kind of retired pay adjustment and the range of each adjustment. Each change was input to the ACOL model and the resultant strength changes were evaluated relative to the seven-year average base case profile (steady state). Three specific force effectiveness parameters, i.e., the number of accessions, the size of the career force (5 through 30+ YOS), and the size of the retirement-eligible portion of the career force (21 through 30+ YOS), were examined because they provide insight into what is occurring to the force structure. Changes in these parameters were then compared to the change in the present value of the difference between Service and civilian income streams. This difference in the present value resulted from specific adjustments made to retired pay or other elements of Service compensation. These changes provided the basis for determining the necessary amount and timing of any reallocation of the retired pay reductions to reestablish the proper force profile.

Three methods of reallocating the cost avoidance funds created by the reduction to retired pay were examined to determine how best to overcome any negative impacts resulting from a retired pay reduction on the overall force structure. The first was to place all or part of the dollars into CURRENT compensation. The second was to RESTORE, or affect a "catch-up" of, the reduced benefit at a selected age or YOS. The third was the provision for an EARLY WITHDRAWAL of a portion of the earned retirement benefit, but only after completing at least the 20th YOS.

General observations from this extensive force structure and cost analyses are as follows:

- a. The multiplier and COLA adjustments produce the same approximate impact on the force parameters for an equal reduction in the present value of the Service and civilian income differential.

b. The COLA adjustments do not produce as severe a reduction in the present values as does a multiplier adjustment, because the initial impact is small. The later a large reduction occurs to retired pay after retirement, the smaller the present value reduction when viewed by the member at the time of potential retirement or earlier. Thus, for the range of reasonable COLA adjustments, they will have a higher impact on the retiree's pay in the long term but a smaller impact on the force evaluation parameters. This must be carefully considered in any modification to the retirement system, because placing the larger impact later in a retiree's life (when they are less able to deal with it) is backwards from the way these type adjustments should be made.

c. The COLA adjustment impacts assume a long-term average CPI of 5% and are sensitive to this assumption. The impacts would be more adverse if the average CPI over a selected period of evaluation was higher and vice versa. This is one of several considerations against using the post-retirement indexing adjustment factor (COLA) as the primary means of designing (or redesigning) a retirement system. The history of CPI projections has been less than reliable. Consequently, designing a system using COLA as the primary adjustment is undesirable. Further, an inequity has been, and could continue to be, created by the fluctuations between active duty wage growth (capped in the past with subsequent catchups) and retiree COLAs, which, until recently, were not capped. The solution to the problem of protecting the retired/retainer pay from inflation is not to penalize both active and retired servicemembers but to maintain a continuous and smooth in-service pay adjustment process to assure satisfactory retention and to arrive at a stable retiree indexing policy. The undesirable side effects resulting from the possible design or major modification of a retirement system based solely upon a COLA index should not prohibit the use of combining different COLA indexing policies with other, more stable design factors, relatively insensitive to economic assumptions. In fact, this can and was found to be a useful type of adjustment mechanism to allow cost-efficient force profile shaping.

d. The COLA adjustment tends to flatten the slope of the rate at which retired pay increases (2.5% per YOS). Therefore, the COLA is a disincentive for a servicemember to remain. The COLA thus impacts more on the 21-30 YOS force parameter than any of the other kinds of retired pay adjustments.

e. The pre-30 YOS adjustments steepen the slope of the rate of retired pay increases between 21 and 30 YOS and thus create a larger 21-30 YOS career population than is desired by the Services. This is opposite from the COLA effect. This can be adjusted by a select-out Service force management policy; however, this will change the observed annual continuation rate and the basic shape of the force profile to a larger, early YOS force (which requires a larger number of accessions). This policy aspect was not evaluated by ACOL. The process is comparable to shifting the annual continuation patterns for an extended retirement eligibility point (later vesting).

f. The COLA and pre-30 YOS adjustments could be feasibly and practically blended together to shape a force profile to a desired configuration.

g. There is a greater impact on the resulting enlisted force than on the officer force for any retired pay adjustment. This results from the greater differential between Service pay and civilian wages independent of the retirement annuity. Thus, the retirement annuity becomes more critical to the enlisted servicemember's decision to stay or leave.

h. The Air Force 5-20 YOS career force profile and accessions are generally less affected than the other Services. The Marine Corps is affected most in these force parameters. The Air Force characteristically exhibits a higher annual continuation rate in the early and mid-career timeframe. The Marine Corps has historically reduced an entering cohort more rapidly in the early years of service and then retained this smaller percentage of the cohort longer. The losses from this smaller cohort in the mid-career timeframe coupled with a different average pay stream by YOS help cause the stronger career force response observed for the Marine Corps. Conversely, the Air Force losses in the retirement-eligible years are higher. The Army and Navy fall between these two extremes. In each case, it is the differences in observed prior Service-specific continuation rates, the slight pay variations in each YOS, and the relative force sizes that help produce these responses.

i. The sensitivity to a variation in assumed personal discount rates (PDR) is largest in the pre-30 YOS adjustments and least in the COLA adjustments. The higher the PDR, the lower the amount of re-allocation necessary to reestablish the base case; however, reallocation could not always overcome the undesired effects of the kind of retired pay adjustment employed. Therefore, care must be paid to the PDR sensitivity when making adjustments and reallocations to affect a given shape of the force profile.

j. The higher the reduction in the present value, the greater the cost efficiency. Greater military efficiency and effectiveness could, but does not necessarily, follow. It depends on what must be done to shape the force and how it is done.

k. Retired pay cannot be adjusted without a force profile degradation. The amount of degradation is directly related to the change in the present value of the relative income differential throughout all YOS groups.

l. There are relatively small variations in force maintenance costs (less retirement and reallocation costs) over a wide range of retired pay adjustments for a constant size force.

m. The most effective retired pay reallocation method must place the proper level of compensation incentive at the right year of service (20 YOS) to draw and retain the required number of quality careerists. Expending the compensation (available from reduced retired pay) too early, through the use of CURRENT compensation, reduces efficiency.

(1) The RESTORAL method of retired pay reallocation is not cost efficient and has negligible positive force profile impact.

(2) The CURRENT compensation method of reallocation could be used to reshape the force profile and increase the size of the career force. However, it does not do it in a manner that meets the Services' requirements. It is also less cost efficient than the EARLY WITHDRAWAL method in producing a given change.

(3) The EARLY WITHDRAWAL reallocation method is best suited for maintaining or enhancing the ability of the retirement system to support mission readiness and sustainability. The EARLY WITHDRAWAL is defined as part of the retirement benefit and remains categorized as deferred compensation.

The additional retirement system adjustment mechanisms of changes in vesting, coordination of the benefit with social security, and requiring the servicemember to contribute were examined. The following observations were made:

a. Vesting. Early vesting (between the 5th and 12th YOS) was examined both in conjunction with the current system and with several alternative retirement structures. The overall results indicate that there is both a cost increase and a negative force strength impact caused by the incorporation of early vesting. It creates a younger, less experienced, career force. The effect is the same for both officers and enlisted personnel but is more pronounced for the enlisted members.

Lengthening or extending the years of service necessary to become eligible for an immediate annuity was also examined under two alternative sets of assumptions about the comparative annual continuation patterns. For both assumptions, the current normal cost percentage (NCP) remains the same and there is no near-term reduction in accrual payments or near-term trust fund outlays. This, coupled with the expected increase in force maintenance and long-term retirement costs (higher percent of basic pay resulting from longer service), presents a higher overall cost picture for this case. More importantly, the resultant force profile does not meet the Services' requirements.

Assuming that peak retention rates would be observed in the year of service immediately preceding the first year of vesting, the historical retention rates were shifted to correspond to the appropriate vesting option. This retention rate shift-and-gap-splicing procedure

was used to analyze extended vesting options to YOS 22, 23, 24, 25 and 30. Essentially, this procedure allowed the Fifth QRMC to project what the observed continuation rates might have been had an extended eligibility (over 20 YOS) compensation policy been in effect for a period of time. Under this alternative set of retention assumptions for the base case, the size of the officer and enlisted career forces declined significantly and accession levels increased with each extension in retirement eligibility. In addition, the post-20 element of the officer and enlisted career forces generally declined as fewer members reached the point of vesting. Neither of the two sets of extended vesting options meet the overall career force profiles required by the Services. While the long-term NCP declined for the shifted case, the current NCP does not; therefore, there is no immediate money to set aside to reallocate to reestablish the proper long-term force profile. Neither of these extended vesting alternatives are attractive and each has a high degree of analytical uncertainty.

b. Member Contribution. At first glance, it appears that there are several advantages to making a retirement system contributory. However, a more thorough examination of these issues indicates that there are good and sufficient reasons to keep the system non-contributory. Quite obviously, and perhaps most importantly, there are significant increases in accessions and decrements in the size of the career force associated with the establishment of retirement contributions of meaningful size. This would indicate that an offsetting concomitant pay raise of an equal or greater percentage than the contribution would be required to maintain force size and personnel mission readiness. Only those who do not retire, but withdraw their contribution upon separation, stand to gain in a contributory system. The Government has not gained, since it is, in effect, paying a bonus to those individuals who do not stay until retirement (in the form of a forced savings account), while they were on active duty. Accordingly, it is concluded that the Uniformed Services retirement system should remain non-contributory.

c. Integration with Social Security. Three aspects of integrating Service retirement with social security were reviewed. These were: the implied offset form of integration; the explicit offset form of integration; and full career employment social security coverage with integration. An implied offset to a servicemember's social security benefit was found to exist. It stems from the failure of Congress to update the \$1,200 wage credit authorized in 1968, in recognition of the compensatory nature of Service allowances for quarters and subsistence as an element of the full value of total Service compensation for social security benefit purposes. Since 1968, the social security maximum wage ceiling has increased more rapidly than has the level of basic pay. In 1983, significant wage credit shortfalls in coverage of the "payment-in-kind" exist through the grade of O-4. The wage credit shortfalls translate into an implied social security offset of nearly 20% of the benefit which would accrue if full coverage of "payment-in-kind" up to the maximum wage ceiling for enlisted personnel were permitted. For officer personnel, the implied offset ranges downward from 15% to 5%.

Explicit integration of the current compensation system with social security benefits by inclusion of an offset against retirement benefits was also examined. The offset percentage would be directly additive to the existing implied offset. Proponents of explicit integration of the Service retirement system with social security often overlook the question of the total proper level benefit. They do not recognize the fact that the current retirement system already exhibits a significant degree of de facto integration and that further offsets would have the effect of reducing the total benefit package of lower wage annuitant retirees. Because the social security formula replaces a larger percentage of income for lower wage earners, benefit reductions would be felt more by enlisted members than by officers. Further, due to the attribution problem, officer or enlisted members who may have post-service employment in a civilian firm having an offset provision of 50% in its retirement plan, could realize little or no future benefit from their contributions to social security. This is because there is no method of unambiguously attributing portions of an individual's social security benefit among employers when the individual has more than one employer. When evaluating an employment career, the Social Security Administration does not distinguish between Service and civilian covered earnings used to compute the actual social security benefit.

One of the primary purposes of social security integration in the private sector is to provide a greater replacement income percentage to higher wage earners. This purpose is believed to be neither appropriate nor applicable to the Uniformed Services retirement system. The true purpose of any integration effort concerning the Service retirement system is simply to reduce the cost to the Government, which pays both benefits. Given that as the purpose, why not approach the issue that way and determine the most efficient and practical method? It has already been shown that the total cost to the Federal Government or, said differently, the level of social security benefits paid to most retired servicemembers (based on their Service earnings), is depressed from what others, including the Federal Civil Service, receive for a comparable income earnings history. Any modification of the retirement system should be to accomplish an intended purpose, not just reduce cost.

d. Alternatives. In narrowing the range of feasible alternatives for changing the retirement system, several assumptions were made. These are:

(1) Any resulting retirement system should be as good or better than an average composite of the better, large private-sector retirement systems.

(2) A viable level of monthly retired pay should be retained throughout a retiree's lifetime.

(3) Since a reduced retirement benefit would impact on the required force structure, a portion of the retired pay cost avoidance would be needed to create a force profile which had equal or better force effectiveness than the base case.

Four basic retired pay adjustment alternatives resulted from this overall effort. They are not represented as the only possible ones, rather four representative ways in which the system could be reformed. The process of selecting these four was based on the combined judgments of the Fifth QPMC technical staff about their relative force impacts, cost and feasibility. These four are listed below:

(1) Reduced COLA/EARLY WITHDRAWAL. Annually adjust retirement payment by 50% of CPI, instead of 100% until age 62. Provides retirement EARLY WITHDRAWALS for those under new system who stay to at least the end of 20 YOS (1.6 times annual basic pay at 20 YOS, 0.4 at 23 YOS and 0.5 at 27 YOS). Only paid to people under new system.

(2) Reduced Multiplier/EARLY WITHDRAWAL. A multiplier of 1.75% vice 2.50% of basic pay per year of service, i.e., 35% vice 50% at 20 YOS, 43.75% vice 62.50% at 25 YOS and 52.5% vice 75% at 30 YOS. Provides retirement EARLY WITHDRAWALS to all who stay to at least the end of several YOS (2.1 times annual basic pay at 20 YOS, 0.6 at 23 YOS and 1.0 at 27 YOS). Only paid to people under new system. Full COLA.

(3) Reduced Early (Pre-30 YOS) Benefit/EARLY WITHDRAWAL. Retirement benefit percentage of basic pay is tapered (-3% per year) from 35% at 20 YOS to 75% at 30 YOS (35, 38, ..., 53.1 at 25 YOS, ..., 70.3, 75). Provides a retirement EARLY WITHDRAWAL (2.1 times annual basic pay at 20 YOS) to all who stay at least the end of 20th YOS. Only paid to people under new system. Full COLA.

(4) Combination/EARLY WITHDRAWAL. Reduces COLA adjustment to 75% until age 62; reduces pre-30 YOS retiree benefit by 3% per year (tapered from 35% at 20 YOS to maximum 75% at 30 YOS) and allows a retirement EARLY WITHDRAWAL of 2 times annual basic pay for officers and 3 times for enlisted for all under new system who stay at least through the end of 20 YOS. Only paid to people under new system.

The long-term (steady-state) impact of these variations on the four Service force profiles was examined. The combined DoD force strength changes (and percentage) are relative to the seven-year average base case without the HI-3 adjustment. (These data only concern the impact on future Service entrants. Transition impacts are covered later.) Results are summarized in Tables IV-1 through IV-4. The enlisted strength impact without an EARLY WITHDRAWAL (EW), for example, is shown for the 50% COLA alternative under the column entitled "ROOT," Table IV-1. The accessions under this condition would be increased 21,300 over the base case number of 332,500. By incorporating the EW, the required accessions would be 2,600 less than 332,500.

Table IV-1
Alternatives 1 and 2
(Enlisted Force Profile)

STRENGTH	BASE CASE	REDUCED COLA (50%)		REDUCED MULTIPLIER (1.75)	
		ROOT	EW	ROOT	EW
ACCESSIONS	332,500	+21,300	- 2,600	+29,300	- 5,500
CAREER FORCE	774,000	-63,900	+ 6,700	-87,500	+15,400
5-20 YOS	718,700	-36,600	+10,500	-52,500	+10,900
11-20 YOS	329,600	-34,600	+ 6,400	-48,700	+ 6,700
21-30 YOS	55,000	-27,200	- 4,300	-34,700	+ 4,000

COST(Millions)

NCP %	50.71(45.25)*	38.30	43.61(40.95)	35.93	42.89(41.10)
FORCE	32,700	32,200	32,800	32,000	32,900
RETIREMENT	9,900	5,700	6,900	5,300	7,000
EW	-	-	900	-	1,200
TOTAL EW & RETIREMENT	9,900	5,700	7,800	5,300	8,200

Table IV-2
Alternatives 3 and 4
(Enlisted Force Profile)

STRENGTH	BASE CASE	REDUCED EARLY BENEFIT (3% Pre-30 YOS)		COMBINATION (75% COLA/3% Pre-30 YOS)	
		ROOT	EW	ROOT	EW
ACCESSIONS	332,500	+20,900	- 8,100	+13,500	- 9,800
CAREER FORCE	774,000	-41,100	+22,700	-62,900	+27,600
5-20 YOS	718,700	-36,800	+16,100	-48,900	+27,900
11-20 YOS	329,600	-36,300	+10,000	-47,800	+19,200
21-30 YOS	55,000	- 4,800	+ 6,000	-14,200	- 800

COST(Millions)

NCP%	50.71(45.25)*	40.15	46.58(44.12)	34.93	43.59(40.62)
FORCE	32,700	32,500	32,900	32,300	32,900
RETIREMENT	9,900	6,800	8,000	5,300	6,700
EW	0	-	1,000	-	1,500
TOTAL EW & RETIREMENT	9,900	6,800	9,000	5,300	8,200

* Current NCP (ACOL ultimate NCP)

Table IV-3
Alternatives 1 and 2
(Officer Force Profile)

<u>STRENGTH</u>	<u>BASE CASE</u>	<u>REDUCED COLA (50%)</u>		<u>REDUCED MULTIPLIER (1.75)</u>	
		<u>ROOT</u>	<u>EW</u>	<u>ROOT</u>	<u>EW</u>
ACCESSIONS	25,800	+ 2,100	- 600	+ 3,400	- 700
CAREER FORCE	176,100	- 7,300	+ 1,800	-11,700	+ 2,000
5-20 YOS	155,200	- 2,500	+ 400	- 3,000	+ 1,200
11-20 YOS	73,800	- 4,700	+ 700	- 6,700	+ 1,000
21-30 YOS	20,400	- 5,100	+ 500	- 8,600	+ 300

COST(Millions)

NCP%	50.71(45.25)*	38.30	43.61(40.95)	35.93	42.89(41.10)
FORCE	11,700	11,800	11,700	11,800	11,700
RETIREMENT	5,100	3,300	3,700	3,000	3,500
EW	0	0	400	0	600
TOTAL EW & RETIREMENT	5,100	3,300	4,100	3,000	4,100

Table IV-4
Alternatives 3 and 4
(Officer Force Profile)

<u>STRENGTH</u>	<u>BASE CASE</u>	<u>REDUCED EARLY BENEFIT (3% Pre-30 YOS)</u>		<u>COMBINATION (75% COLA/3% Pre-30 YOS)</u>	
		<u>ROOT</u>	<u>EW</u>	<u>ROOT</u>	<u>EW</u>
ACCESSIONS	25,800	+ 1,200	- 1,200	+ 2,000	- 400
CAREER FORCE	176,100	- 4,400	+ 3,600	- 7,100	+ 1,000
5-20 YOS	155,200	- 4,900	- 800	- 4,900	- 700
11-20 YOS	73,800	- 6,300	+ 100	- 7,500	- 1,000
21-30 YOS	20,400	- 500	+ 3,100	- 3,100	+ 600

COST(Millions)

NCP%	50.71(45.25)*	40.15	46.58(44.12)	34.93	43.59(40.62)
FORCE	11,700	11,800	11,700	11,800	11,700
RETIREMENT	5,100	4,000	4,300	3,300	3,600
EW	0	0	400	0	400
TOTAL EW & RETIREMENT	5,100	4,000	4,700	3,300	4,000

* Current NCP (ACOL ultimate NCP)

Three costs were observed to be important. Among these three, the variance in force costs was insignificant and, thus, was not a critical evaluation factor. The remaining two are comprised of the cost avoidances realized in the DoD accrual payments (based on the NCP), which begin in FY85, and the long-term cost avoidances of the retirement trust fund outlays. Figures IV-1 and IV-2 compare the resultant values for each of the four alternatives. For example, in Figure IV-1, no change in the retirement trust fund is shown until FY2005 when the first retirees (new entrants in FY85) under the new system are assumed to retire and draw the EARLY WITHDRAWAL. This creates a surge in the trust fund outlays which lasts about 20 years before substantial permanent reductions in outlays are realized. The temporary increase in the trust fund would actually be less than shown because it assumes the worst condition: everyone eligible draws the EW at the end of 20 YOS. Actually, not everyone retires at 20 YOS; those who did not but took the interest-only loan would be paying interest. This would reduce the overall outlays and the NCP (slightly). The long-term percentage reductions in trust fund outlays are 11.2% for the 3% pre30 YOS, 16.6% for the 1.75 multiplier, 13.6% for the 50% COLA, and 18.2% for the combination alternative.

Figure IV-1

FUTURE RETIREMENT COST RELATIVE TO CURRENT SYSTEM TRUST FUND OUTLAYS

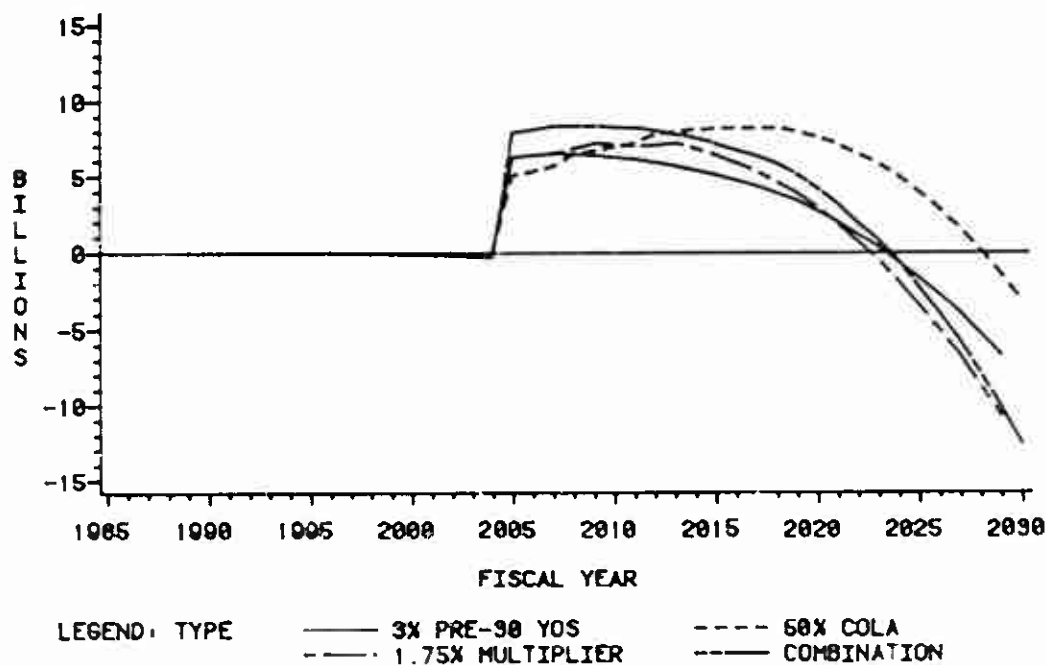
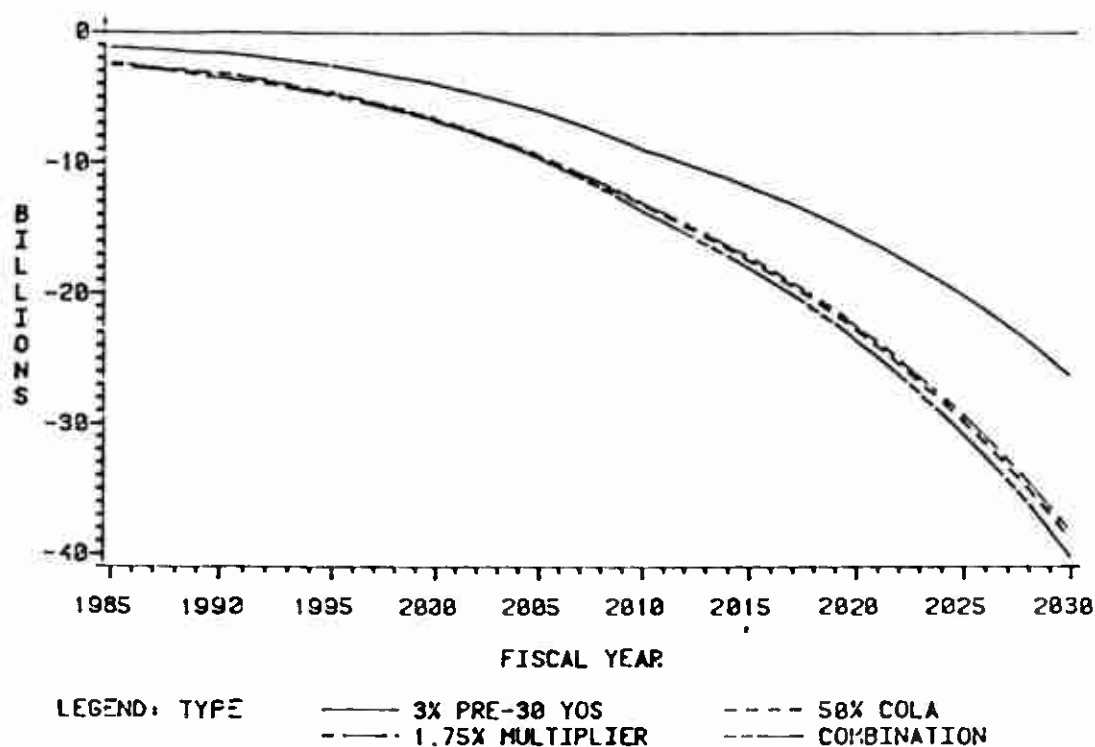


Figure IV-2 shows the DoD accrual payment reduction in billions (dynamic dollars at a CPI of 5%). The immediated reduction in the DoD annual accrual payment to the retirement trust fund is shown in billions (dynamic dollars at 5% CPI). The atarting percentage reduction and resulting long term reduction as the force transitions are as follows for the four alternatives.

		<u>FY1985</u>	<u>FY2010 & on</u>
50% COLA/EW	-	14.0%	19.3%
1.75 Multiplier/EW	-	15.4%	19.0%
3% Pre-30 YOS/EW	-	8.1%	13.0%
COMBINATION/EW	-	14.0%	19.9%

Figure IV-2
FUTURE RETIREMENT COST RELATIVE TO CURRENT SYSTEM
DOD ACCRUAL OBLIGATION



Implementing any modification to the Uniformed Services retirement system requires a careful consideration of what, if any, part of the new system will affect current force servicemembers without degrading mission readiness. Current retirees are not normally part of any such decision process; however, because the policy regarding indexing for inflation (COLA) is involved, this impact must also be reviewed. The second consideration is that of resultant costs. To evaluate the effect that implementation of an alternative retirement system would have on the force structure during the transition period, a transition capability

was incorporated into the ACOL model. Four transition cases for the two QRMC alternatives involving a COLA reduction were evaluated. These four cases were:

- CASE I Current retirement system with 75% COLA for current retirees and future non-disability retirees from the current force under age 62. (Combination/EW alternative).
- CASE II Current retirement system with 50% COLA for current retiree and future non-disability retirees from the current force under age 62. (Reduced COLA/EW alternative).
- Case III Alternative retirement system based on 3% year pre-30 YOS benefit reduction, EARLY WITHDRAWAL after 20 YOS of 2.0 times basic pay for officers and 3.0 times for enlisted personnel and a grandfather clause to cover members with 12+ years of service as of 1 October 1984. All current and future non-disability retirees from the current force under age 62 receive a 75% COLA. (Combination/EW alternative).
- CASE IV Alternative retirement system based on an EARLY WITHDRAWAL after YOS 20, 23, and 27 of 1.6, 0.4, and of 0.5 times basic pay, respectively. Servicemembers with less than 12 YOS at time of implementation receive the EW. All current retirees and future non-disability retirees from the current force under age 62 receive a 50% COLA. (Reduced COLA/EW alternative).

CASE I and CASE II with only the partial COLAs applicable to the current force are the worst cases. The EARLY WITHDRAWAL in CASE IV raises the officer career force above the levels that would obtain from aging the current force under the historical average continuation patterns of the current retirement system. For the enlisted career force, CASE IV pulls the force size forward and achieves the levels of the historical averages of the current retirement system during the transition period. CASE III achieves a middle ground and is more effective in restoring the career force to levels equal to or better than the historical average under the current retirement system. Figures IV-3 through IV-6 display these data.

Figure IV-3
ACCESSION LEVEL CHANGES DURING TRANSITION
BY RETIREMENT OPTION
GROUP=OFFICER

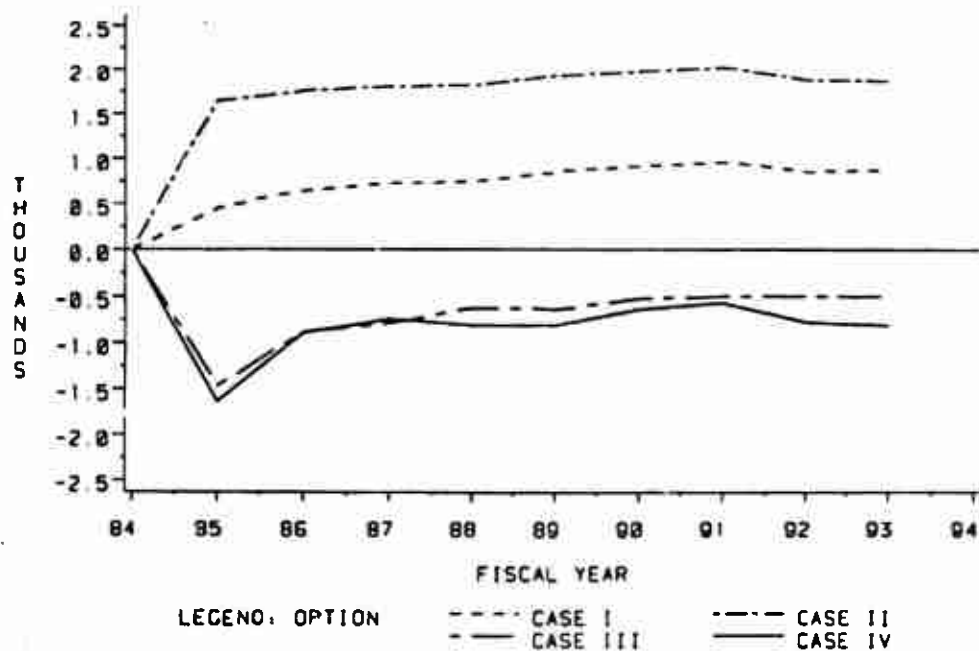


Figure IV-4
CAREER FORCE CHANGES DURING TRANSITION
BY RETIREMENT OPTION
GROUP=OFFICER

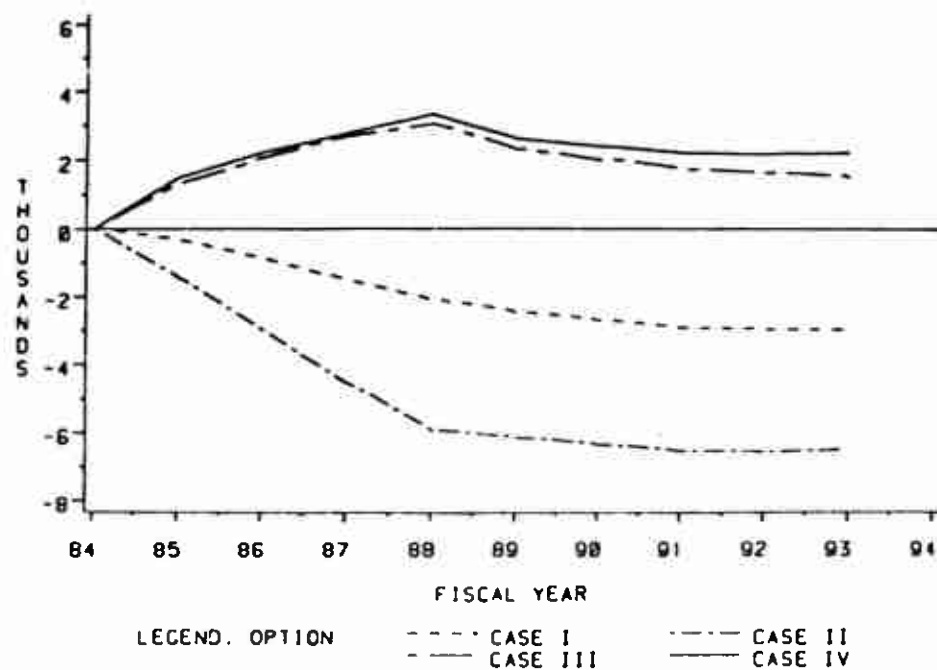


Figure IV-5
ACCESSION LEVEL CHANGES DURING TRANSITION
BY RETIREMENT OPTION
GROUP=ENLISTED

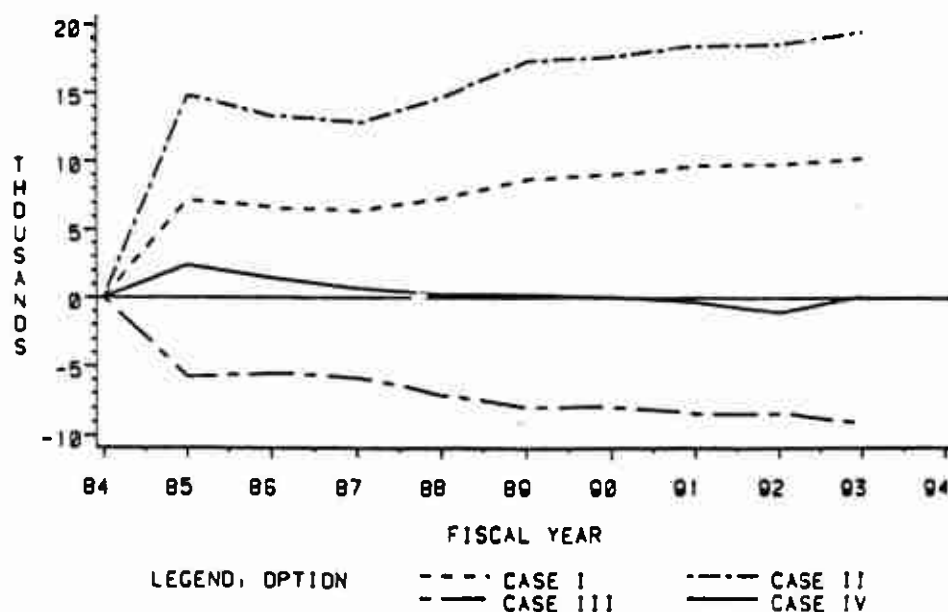
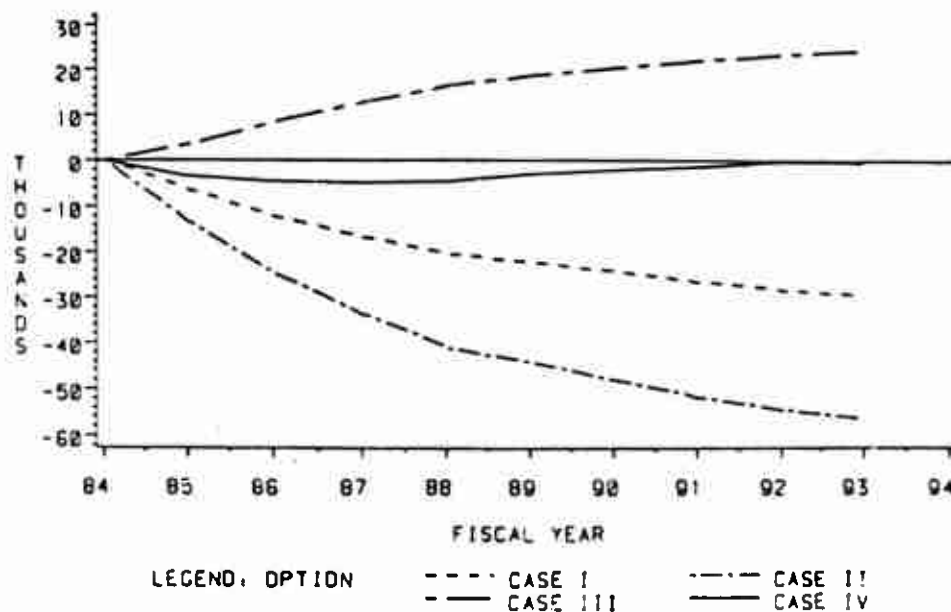


Figure IV-6
CAREER FORCE CHANGES DURING TRANSITION
BY RETIREMENT OPTION
GROUP=ENLISTED

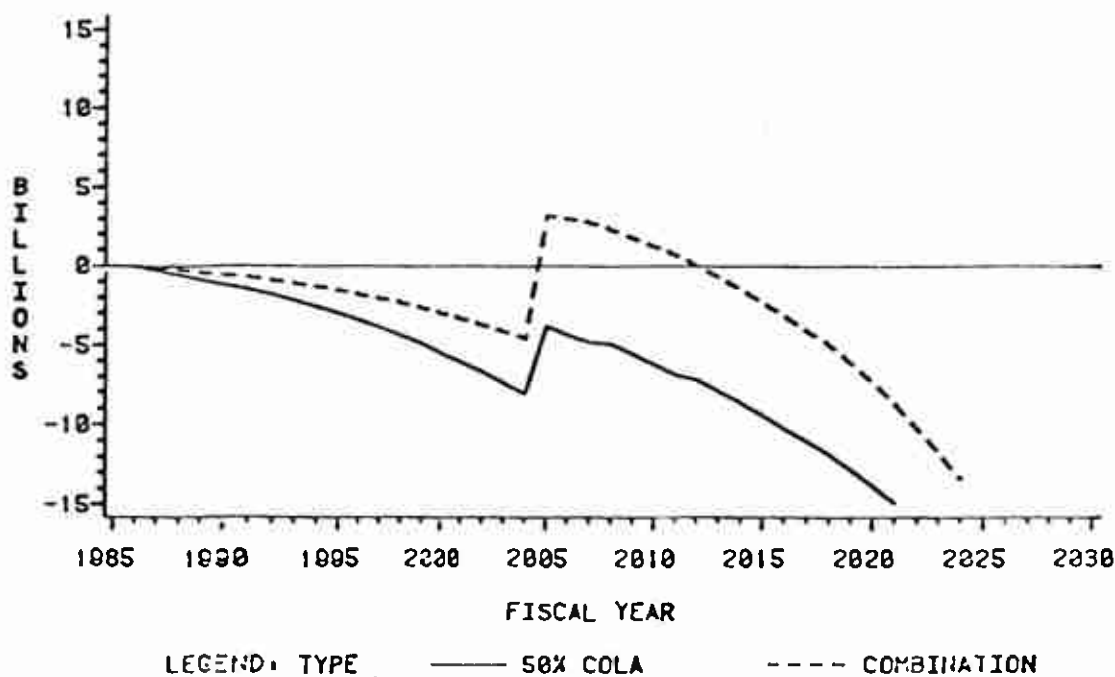


The four prime alternatives were analyzed for their impact on the trust fund outlays under two types of grandfathering scenarios. The only two plans which, if totally grandfathered except for any COLA adjustment, and hence, had an immediate savings under this type of grandfathering, were Alternative 1 (Reduced COLA) and Alternative 4 (Combination). Figure IV-7 shows the result of this type transition.

Figure IV-7

FUTURE RETIREMENT COST RELATIVE TO CURRENT SYSTEM

TRUST FUND OUTLAYS - COLA NOT GRANDFATHERED

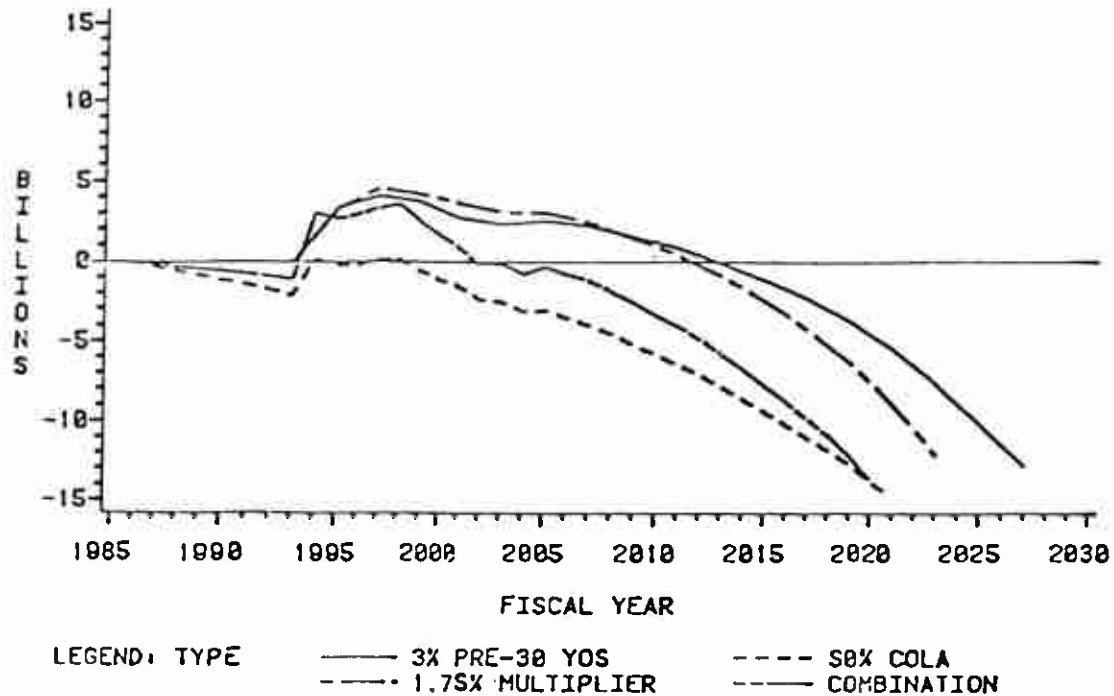


The second scenario fully grandfathered all members with 12+ YOS, again with the exception that any reduced COLA applied immediately to everyone. Members with less than 12 YOS have the option of electing into the new system. In order to obtain the cost boundary of the cost impact, it was assumed that all members with less than 20 YOS would elect into the new system. Figure IV-8 shows the results. (This simply reduces the initial surge in trust fund outlays and moves it forward to FY94.)

Figure IV-8

FUTURE RETIREMENT COST RELATIVE TO CURRENT SYSTEM

TRUST FUND OUTLAYS - COLA NOT GRANDFATHERED - PRE-12 YOS OPTION



Any proposed legislation to modify the current retirement system by reducing retired pay must stress the absolute requirement that a form of reallocation must be an integral part of the new system. The reallocation is, in actuality, a part of the reduced retirement lifetime earnings (deferred compensation) to a more current timeframe. Evaluation suggested that the EARLY WITHDRAWAL amount be paid independent of whether a member retired at this point. This appeared to have undesirable perception aspects, as well as raising Service concerns about it encouraging the members to take the EARLY WITHDRAWAL lump sum and then immediately retire. The Fifth QRMCI did not believe this latter concern to be totally valid. Many servicemembers have a cash flow problem to meet their family responsibilities at about the time of retirement eligibility. The thought is that making a part of the EARLY WITHDRAWAL available through a low rate, interest-only loan would solve the cash flow problem and allow continued service rather than seeking higher civilian earnings by combining retirement and civilian earnings. The fact that civilian earnings will exceed Service pay is questionable on the basis of the average post-Service earnings data developed by the Fifth QRMCI.

The issue then becomes how to make this earned retirement benefit, and this is an important distinction, available to the servicemember. This is also fundamental to the ACOL analysis, in that, the "carrot" must be perceived by the member as available at the point

selected for its eligibility. Interestingly, the payment of such an EARLY WITHDRAWAL has precedent in foreign military retirement systems and is not new in the United States. Capital accumulation plans in the private-sector retirement planning are of increasing importance and value.

A review of post-Service earnings of former military personnel was conducted as it provided an important measure of the civilian wage available to personnel who separate or retire. This knowledge about post-Service earnings is helpful in setting Service compensation policy related to retirement and Special and Incentive pays. Officer separatees and enlisted retirees go through a significant transition period where their earnings are considerably less than those of their civilian peers. For both groups, the transition period is about seven to nine years -- earnings continue to rise relative to civilian counterparts until the end of the ninth year after separation. Both officer and enlisted retirees earn less in the private-sector than do their civilian peers. The difference is much more significant for male enlisted retirees. When a Service retiree's retirement benefit is taken into consideration, the overall earnings picture significantly improves. This observation must be coupled with the fact that those reaching a career length of 20 or more years have been subjected to continuous quality screening and represent the top 10 percent of all Service personnel at 20 YOS; the top 2% at 30 YOS or greater. Clearly, these people are not the average and should be compared to the higher civilian percentile.

e. Assessment of Other Studies. Several previous, major retirement plan proposals that have evolved from earlier large study efforts were evaluated by the Fifth QRMC using the same analytical techniques developed for its more general study of alternative retirement considerations. In each case the HI-3 averaging of basic pay was used to conform to today's environment. These proposals were found to respond in the same way as the more general parametric analysis results for each type of retired pay adjustment. None were observed to be more useful than any of the prime alternatives and, in fact, had a number of features not supported by the Fifth QRMC.

In particular, the Grace Commission findings and recommendations regarding the basic restructuring of the Uniformed Services retirement system would not accomplish the basic purpose of that system, i.e., supporting the national security objectives. Although, they could reduce individual entitlements and costs, the Grace Commission recommendations offer no improved capability for the retirement system to better meet defense requirements. The proposed changes would cause immediate recruiting and retention disincentives. The changes would potentially lead to an immediate unacceptable degradation of middle and senior management, in terms of both numbers and quality.

f. National Guard and Reserve Retirement System. The ability of the Fifth QRMC to analyze the Reserve Components retirement system was constrained both by data limitations and time. This limitation

is recognized, especially in view of the current emphasis to shift some of our active duty responsibilities to the reserve forces. If this shift continues to be our policy, the relationship between active and reserve compensation systems becomes increasingly important, particularly in the retirement element of those systems.

As with the active forces, the compensation system for the National Guard and Reserve forces must be an integral part of the overall system by which manpower is managed. We now depend upon the Reserve Components for a high percentage of essential wartime missions and many Reserve Component units are scheduled to deploy prior to active force units. Additional review and analysis of the organization, structure and record-keeping practices for Reserve Component members and discharges who may receive retirement benefits is essential so we can better understand the impact of change on our Total Force structure.

g. Disability Retirement System. A detailed analysis of the disability retirement system was not conducted as part of the Fifth QRM. The alternatives to the current system analyzed by the Fifth QRM have only a marginal impact on the disability retirement system. However, it was observed that the difference in classification of a fairly sizable portion of retirees between DoD and the VA has implications for the mobilization base and needs to be reviewed. Finally, the ability of disabled (in the VA evaluation) retirees to cycle between two annuities, i.e., VA benefits and DoD retiree payments, was undoubtedly not intended by law and should be resolved.

E. FINDINGS. A series of major findings can be drawn from the overall Fifth QRC study. They are as follows:

1. The first known authority to use the retirement system to produce a younger and more vigorous force was the Act of February 28, 1855. It permitted the Secretary of the Navy to convene examining boards to determine the capability of officers to "perform their whole duty both ashore and afloat," and to remove any officer not capable of such performance.

2. The Uniformed Services retirement system is designed specifically to support and complement the management of the Total Force (active and Reserve Components) and functions as an integral part of the Uniformed Services compensation structure. It is not an old-age pension system similar to those normally found in the private sector or in other Federal retirement programs.

3. The United States is the only free world nation to have a retirement system for both active forces and the Reserve Components.

4. The current retirement system has been, and continues to be, a powerful career incentive. It has supported mission readiness in both the active and reserve forces. Retirement begins to exert significant retention effect (pull) between 8-12 years of service. The actual point varies between officers and enlisted personnel and among occupational skills. For most enlisted personnel, it becomes a significant consideration at about the second reenlistment point. About one of every three enlisted personnel who reach the 5th year of active service will retire from active duty approximately two of every three officers.

5. The actual manpower inventory and force profile for any given year does not resemble the Service desired steady-state force profiles. The fundamental reason for this undesirable result is that the Service manpower and personnel system is essentially a "closed system" in which lateral entry of non-prior service personnel is rarely utilized. The varied rates of retention among different skills in the career force, together with a continuously changing character of the skill mix required to keep pace with the introduction of new technology and associated weapon systems, add yet another dimension of complexity. Aggravating these fluctuations are changes in the national economy and civilian employment opportunities, social attitudes about the Service, and the continued sawtooth pattern of maintaining Service compensation at the "right" comparable and/or competitive levels as perceived by the servicemembers themselves.

6. The retirement system will help the retention of quality personnel only when the overall compensation system is adequate to recruit and retain quality in the short term and to draw sufficient personnel to the point of service where the retirement incentive becomes a predominant part of an individual's decision process. This requires a careful balance between current and deferred compensation as well as

Service force management policies. The latter must provide for quality screening and selection, as well as for the application of appropriate current compensation to induce those quality personnel on the margin to stay. The recent Presidential Military Manpower Task Force reinforced that aspect in stating the need to adequately fund Service basic pay, allowances and special pays in order to maintain our required force size.

7. Meaningful analyses of the retirement system must use a requirements-based methodology and an analytical approach that focuses on force structure. To do otherwise, could possibly change its capacity to accomplish its intended purpose.

8. There have been nine major studies over the past 35 years. All have recommended changes to the Uniformed Services retirement system by reducing the benefit level. None have adequately addressed the Service force requirements issue.

9. The current retirement system can be restructured and strengthened to produce the same or improved force profiles as the current system and thus sustain mission readiness at less cost.

10. There are eight viable methods of modifying the retirement system by adjusting the level of the retired/retainer pay. They are:

- a. Multiple-year averaging of basic pay for retired pay.
- b. Modified multiplier for years of service.
- c. Pre-30 years of service (early retirement) retired pay adjustment.
- d. Cost-of-living adjustments.
- e. Changes in vesting.
- f. Integration with social security.
- g. Member contribution.
- h. Combination of the above adjustments.

11. Any reduction in the retirement benefit without some necessary compensation restructuring will negatively impact the career force and, thus, reduce mission readiness.

12. The enlisted career force is more sensitive to retired pay changes than the officer force. This is true for all Services. The reason lies primarily in the difference in the relationship between Service and civilian pay streams. The officer pay generally exceeds the average civilian alternative income stream and, thus, generates a positive

inducement to remain in service, independent of the retirement draw. For enlisted personnel, however, Service pay generally falls short of the average civilian alternative income stream and thereby generates an inducement to leave the Service. The negative aspect must be overcome by the retirement draw.

13. The September 1980 implementation of the "high three" year basic pay averaging methodology in calculating the retirement annuity is projected to cause a career force reduction of about 0.5% for officers and 1.2% for enlisted personnel. The reduction in the later part of the career force (21-30 YOS) is five percent for officers and twenty-two percent for enlisted personnel.

14. Any proposed modification to the current retirement system must recognize and attempt to overcome these projected losses due to "high three" year averaging, if the desired Service force structures are to be achieved in the future.

15. The current retirement system can be restructured for new Service entrants by reducing the amount of retired pay and paying part of the remaining portion sooner. The most effective retired pay reallocation method must place the proper level of compensation incentive at the right year(s) of service to draw and retain the required number of quality careerists. Expending the reallocation too early, through CURRENT compensation, reduces cost efficiency and force effectiveness.

16. The RESTORAL reallocation method which reestablishes the level of the reduced benefit at a certain age, or anniversary of a year of service, is beneficial to the retiree but is the least cost efficient of the three methods evaluated. Small positive force changes result from this method compared to the added cost. It will not restore equal force effectiveness under any equal cost circumstance.

17. The EARLY WITHDRAWAL reallocation method is best suited for maintaining or enhancing the ability of any modified retirement system to support mission readiness and sustainability. The EARLY WITHDRAWAL is part of the retirement benefit and remains categorized as deferred compensation.

18. The Fifth QPMC analysis produced four primary alternatives for restructuring and strengthening the current retirement system:

a. Reduced Multiplier/EARLY WITHDRAWAL. The largest near-term DoD cost avoidance results from the 1.75% multiplier alternative which has a 15.4% reduction in the normal cost percentage (NCP). It has a long-term 16.6% reduction in trust fund outlays. Although this alternative is the most cost efficient for reallocation, this alternative without any EARLY WITHDRAWAL results in the most severe force impact. It does not restore the force profile in the early/mid career (5-20 YOS) as well as the Combination alternative, and requires multiple EARLY WITHDRAWAL payments which is less desirable. However, the surge in the future trust

fund payments due to the EARLY WITHDRAWAL is lower than the Combination alternative (which is the highest) and lasts a slightly shorter period. It has no short-term savings. It is easily implemented without creating equity problems with the current force.

b. Reduced COLA/EARLY WITHDRAWAL. The second most cost efficient reallocation alternative is the 50% COLA adjustment. It reduces the current NCP by 14%. It reduces long-term trust fund outlays by 13.6%. Near-term cost avoidances are possible, but with significant force impact, if the current force is not grandfathered. The EARLY WITHDRAWAL surge lasts the longest and is the largest. The 50% COLA alternative has the undesirable aspect of great economic uncertainty for both the Government and the servicemember and is a poor choice as a primary method for modifying the retirement system. Implementation and transition to this alternative present equity problems for the current force. It does not restore the career force profile as well as other alternatives and thus requires multiple EARLY WITHDRAWALS.

c. 3% Pre-30 YOS/EARLY WITHDRAWAL. This alternative and the Combination alternative have about the same reallocation cost efficiency, but results in the least cost avoidance in all categories for both the near and long term. Its current NCP reduction is 8%; there are no near-term trust fund cost avoidances. Long-term trust fund cost avoidances after the EARLY WITHDRAWAL surge, which is the smallest, are 11%. This alternative does not restore the required career force profile because of the heavy draw to the 21-30 YOS part of the career force. A single EARLY WITHDRAWAL at the end of 20 YOS is the only reallocation required. This alternative, like the reduced multiplier, is easily implemented (no equity problems with current force).

d. Combination/EARLY WITHDRAWAL. This alternative reduces the current NCP by 14% and has the largest long-term trust fund outlay reduction (18%). The long-term NCP reduction is also the largest (about 20%). This alternative most correctly shapes the career force profiles. The incorporation of the COLA adjustment, however, raises equity problems for the current force. Near-term savings are possible with a small transitory force impact if COLA is not grandfathered and if the members with less than 12 YOS choose the modified system.

19. Those servicemembers on active duty at the time of implementation of a modified retirement system must retain the option of computing their initial retired pay under the current system. The option of electing the modified system in toto should be limited to those current servicemembers with 12 years of service or less.

20. Any alternative which reduces the retirement benefit immediately affects the DoD budget by reducing the annual accrual payment and thus the required TOA. Only alternatives which affect indexing (COLA) could produce an immediate reduction in the Treasury retirement trust fund outlays. Other alternatives require over 25 years to affect trust fund cost avoidances.

21. There is no vesting in the Uniformed Services retirement system short of the attainment of 20 years of active service (20 creditable YOS for the Reserve Components), except in the case of disability retirement. Earlier (pre-20 YOS) vesting for a deferred benefit costs more and is of no value to mission readiness. The early vesting issue is one of equity. Extending the initial retirement eligibility to some point beyond 20 YOS is counter to stated Service requirements and costs more. The current system of severance pay, as well as the enlisted bonus structure, provides sufficient remuneration for services rendered and provide a degree of equity for servicemembers who either voluntarily or are involuntarily terminated from the Service short of 20 creditable years.

22. The implementation of a contributory retirement system, where member contributions are of a meaningful percentage, would create significant increases in accessions and decrements in the size of the career force. This indicates that an offsetting concomitant pay raise, of an equal or greater percentage than the contribution, would be required to maintain acceptable force size and mission readiness. Only those who do not retire, but withdraw their contribution upon separation, stand to gain in an contributory system. The Government would not gain, since it would be paying a bonus in the form of a forced savings account to those individuals who do not stay until retirement.

23. Social security benefits have been, and are expected to be, less than for comparable private-sector earnings as a result of contributions only on basic pay rather than basic military compensation (BMC). This establishes an implicit, partial integration. Explicit integration would more severely impact enlisted personnel's old-age income.

24. The retirement proposals set forth by the Grace Commission do not support the basic purpose of the retirement system and would seriously degrade the Services' ability to maintain mission readiness.

25. Cost comparison of the current Service retirement benefits with private-sector old age pension plans on a rigorous basis indicate:

a. Service retirement costs the Government 1.2 to 2.0 times more than the average of a large sample of private-sector plans.

b. Service retirement costs for the Government and servicemember combined are 1.2 to 1.6 times higher.

c. The 20-YOS Service retiree's total benefit (lifestream earnings) present value is about 30% higher than a private-sector individual who retires with full benefits at age 62/20 YOS (90th percentile).

d. The 30-YOS Service retiree's total benefit is about 15% higher than a civilian retiree age 65/35 YOS (90th percentile).

26. The current Uniformed Services retirement system is a pay-as-you go system with a FY83 cost of about 16 billion dollars. Accrual accounting will begin within DoD in FY85 as required by Public Law 98-94 with the Services' funding retirement costs using the advance funding concept and an accrual accounting technique. This assures that future retired costs consider today's force structure and current compensation decisions.

27. Analysis of FY55 to FY82 active force retirement cost growth indicates that 55 percent of the cost growth is attributable to inflation, 21 percent is attributable to wage growth in excess of inflation, 19 percent is attributable to the elevenfold retired population growth, and 5 percent of the increase is due to the retired pay adjustment mechanism. Similar increases were experienced in the Reserve Components retirement costs. Assuming a constant force size (2.1 million active and 1.0 million reserve) the rate of retirement cost growth is projected to decrease and should level out in the early 21st century, except for the growth caused by the decreased mortality rates.

28. Retirees may be classified as non-disability retirees by the DoD but be eligible for VA disability payments, even though DoD and VA use the same schedule to determine eligibility. The DoD rates a retiree's condition only once, at the time of retirement; but, the VA allows reevaluation. It is frequently advantageous for retired members to accept the VA benefit, because it is exempt from Federal income tax. The DoD retirement benefits are reduced by the amount received from VA.

29. Non-disability retirees are a mobilization asset. However, of the approximately one million retirees classified by DoD as non-disabled, 25% have an offset to their retirement annuity due to payments received from the VA for disability; therefore, they may not be a viable mobilization asset.

30. The last major study of Reserve Components compensation was conducted in 1976. It employed a study process and guiding principles similar to the Fifth QRMC review. In view of the increased emphasis on redistributing active responsibilities to the reserve forces, a new study of reserve compensation is warranted. The Fifth QRMC was unable to undertake this task.

31. As with the active forces, the Reserve Components compensation system must be an integral part of the overall system by which the manpower of these forces is managed. It must also have sufficient flexibility to adapt to the unique needs of these forces. Active and Reserve Components retirement compensation should be complementary and not competitive.

32. The current Reserve Components retirement entitlement structure allows credit for longevity pay raises, wage growth, and full CPI protection, even though the reservist may become inactive prior to reaching age 60. This is inconsistent with the active retirement entitlement structure and requires review.

F. RECOMMENDATIONS. The Fifth QRMCM makes the following recommendations for strengthening the Uniformed Services retirement system:

1. That the basic purpose not be changed and that no modification of the current system be undertaken that will degrade the mission readiness and sustainability of our Uniformed Services.

2. That evaluations of retirement system alternatives must analyze force impact. This is true for this study and will remain true in the evaluation of all subsequent proposals. The risk of doing otherwise is simply too great to be ignored. Changes to the retirement system cannot be driven by cost avoidances alone.

3. That any modifications to the current system be proposed in a legislative form that recognizes the absolute requirement for an integrated proposal and that subsequent fragmenting of the modification could negate the resultant force structure and thus, could cause the modification to fail its intended purpose. A greater degree in the stability of the overall Service compensation system, to include the retirement system, is strongly recommended to provide the servicemember a reasonable basis for career planning.

4. That consideration be given to strengthening the current system by modifying it in line with the results of the Fifth QRMCM analyses. One of the four primary alternatives should be considered. These four alternatives are:

- a. Reduced Multiplier/EARLY WITHDRAWAL.
- b. Reduced COLA/EARLY WITHDRAWAL.
- c. 3% Pre-30 YOS/EARLY WITHDRAWAL.
- d. Combination/EARLY WITHDRAWAL.

5. That any modification to the retirement system provide, at the time of retirement, payment of an appropriate EARLY WITHDRAWAL amount from the total remaining earned retirement benefit.

6. That the funds to make these EARLY WITHDRAWALS be made as a part of the annual accrual payments to the retirement trust fund inasmuch as the EW is, and should continue to be, defined as part part of the retirement benefit and, therefore, deferred compensation.

7. That the non-DoD Services be required to implement the advance retirement funding concept and initiate accrual payments to a separate Treasury retirement trust fund for their servicemembers.

8. That from the time (YOS) of EARLY WITHDRAWAL eligibility until the time of retirement, the unused EARLY WITHDRAWAL should draw (accumulate) the applicable interest rate earned by the retirement trust fund. The EARLY WITHDRAWAL has been funded by the DoD annual accrual payments over the servicemember's career.

9. That the servicemember should have access to the EARLY WITHDRAWAL after reaching the applicable length of service (EARLY WITHDRAWAL eligibility point). To make the money available to servicemembers at the time of eligibility, the proposed legislation should be structured to allow for a low rate, interest-only loan to the members of about 70 to 75% of the EARLY WITHDRAWAL. The remainder should be held to protect their ability to pay taxes following retirement. Further, the legislation should provide for 10-year averaging of the EARLY WITHDRAWAL. This should be carefully coordinated with the Internal Revenue Service to facilitate the legislative process.

10. That, if the Congress failed to fund the accrual payments properly, the proposed legislation should include the provisions for the affected cohort group to be paid an increased multiplier to compensate for the loss.

11. That any modification to the current system be structured to reduce or overcome the force impact of past implementation of the HI-3.

12. That those servicemembers on active duty at the time of implementation of a modified retirement system should retain the option of computing their initial retired pay under the current system. The option of electing the modified system in toto should be limited to those current servicemembers with 12 or less years of service.

13. That no modification be made to the current system that changes vesting to either an earlier or later time, or both.

14. That the system remain non-contributory for the servicemember.

15. That no explicit integration with social security be undertaken.

16. That the Grace Commission Uniformed Services retirement proposals be disregarded because of their unacceptable degradation of the force structure.

17. That a review be undertaken of the viability for mobilization of those DoD non-disabled retirees receiving VA disability payments who are under the age of 60 and who have been retired for ten or less years.

18. That a study similar to the 1976 Reserve Compensation System Study (RCSS) be undertaken in view of increased emphasis on the shift of active duty responsibilities to the reserve forces.

19. That full inflation protection be continued for disability retirement and survivor(s) benefits.

V. SURVIVOR BENEFITS PROGRAM.

A. PURPOSE. Survivor benefits serve as an essential complement to the system of pay and compensation of the Uniformed Services. They have been enacted by Congress, through the years, to recognize the unique contributions of Service personnel and to protect survivors of those personnel from undue hardship during both war and peace. Survivor benefits available to the Uniformed Services are not intended to constitute a comprehensive estate program of adequate size to meet the needs of all individuals. Rather, they are intended to serve as a foundation upon which members may build as they attain rank and increased family responsibilities.

B. SCOPE. The scope of the study included the available annuity programs of the Survivor Benefits Plan, social security, and Dependency and Indemnity Compensation. Also reviewed were the Serviceman's Group Life Insurance, Death Gratuity and Burial Expenses associated with the member's death. Primary sources of data were legislation, DoD policy, and a special contract let with a private institution to assist in understanding private-sector survivor benefits. Although no specific data was formally requested from the Services, their ideas and comments were solicited and considered in the overall review.

C. METHODOLOGY. The methodology used in the study of the various elements of the Survivor Benefit Program first involved a complete evaluation of each individual element. Factors explicitly examined included the original intent of the benefit, historical evolution, eligibility criteria, amount and adequacy of the benefit, and linkage to other benefits. The elements were then reviewed as a package or system to determine adequacy, overlap, and availability to the survivor. Key to the analysis was determining the proper division of responsibility for estate planning between the Government and the individual member. Other considerations included applicability to both war and peacetime conditions, requirements of a non-draft force as well as those of a conscripted force, reasonable comparisons with private-sector benefits, and special problems associated with life in the Uniformed Services.

D. FINDINGS AND RECOMMENDATIONS.

1. General.

a. All elements of the Survivor Benefits Program were found to be necessary.

b. While the basic tenants of each benefit was determined to be viable, some require strengthening, specifically:

- Survivor Benefit Plan
- Serviceman's Group Life Insurance
- Death Gratuity
- Burial Expenses

2. Individual Survivor Benefits.

a. Survivor Benefit Plan (SBP) - a voluntary program with shared costs between the servicemember and the Government, designed to provide income protection for dependent survivors of members who die in retirement or while on active duty after reaching retirement eligibility.

- Findings: high value, viable program with valid need; fully competitive with private sector having comparable insurance protection; intended ratio of member contribution compared to Government subsidy of 60/40 not being achieved; integration with social security has caused misconception of true value; current requirement for lump-sum payment of refunded monies conditional to reinstatement for survivors remarrying after age 60 who lose Dependency Indemity Compensation causes undue hardship for elderly.
- Recommendations: beginning 1 Oct 1985, index via basic pay the initial \$300 minimum on which member pays 2.5% of annuity; calculate and fix the percent social security reduction at time of member's retirement based on Service earnings; grant authority to DoD to review minimum cost computation on five-year basis and revise accordingly; implement publicity and education programs to properly inform career personnel of SBP; allow orderly payment of SBP premium refunded to survivors who are reinstated due to remarriage after age 60 instead of lump sum.
- Legislative Action Required: Amend Title 10 U.S.C. as applicable.

b. Social Security Survivor and Disability Benefits - monthly payments received by servicemembers in case of disability or their survivors in case of death, pre- or post-retirement, who have met coverage and entitlement requirements.

- Findings: benefits, combined with known and applicable income from other sources, are adequately performing their income replacement function.
- Recommendations: adopt explicit percentage numerical goals; consider other available income sources when evaluating adequacy of social security; agencies setting survivor benefit levels should consider social security provisions; do not exceed 100% in income replacement.
- Legislative Actions Required: None.

c. Dependency and Indemnity Compensation (DIC)-an annuity provided to survivors of servicemembers to partially replace lost family income and as reparation for death, the amount of which is dependent on member's paygrade.

- Findings: payment of DIC is proper obligation of the Government serving its intended purpose; need objective method to measure adequacy every two years.

- Recommendation: DoD and VA should jointly develop mechanism to measure adequacy every two years.

- Legislative Action Required: None.

d. Serviceman's Group Life Insurance (SGLI) - term life insurance available to servicemembers and qualified reservists, absent of war restrictions, provided at a reasonable cost; coverage of \$35,000 or less; participation automatic unless declined.

- Findings: accomplishing intended purpose at cost higher than comparable private-sector plans with fewer participants; does not provide same basic level of coverage as private sector; obligation of Government to facilitate purchase of insurance protection for member is proper; member responsible for coverage above SGLI provisions.

- Recommendations: increase coverage to \$50,000 with optional additional coverage of \$50,000; do not link optional coverage to basic \$50,000 program; establish DoD and VA joint task force to examine both current rates and rates associated with proposed coverage increases.

- Legislative Action Required: Amend Title 38 U.S.C. Sections 765-779.

e. Death Gratuity - an immediate lump-sum payment to survivors of servicemembers to help meet financial obligations during weeks following member's death; payment of \$3,000.

- Findings: valid need; current payment inadequate.

- Recommendation: compute payment on basis of three months' RMC with minimum of \$3,000 and maximum of \$9,000.

- Legislative Action Required: Amend Titles 10, 32, & 37 U.S.C. to change payment formula to proposed method.

f. Burial Expenses/Burial Flag - benefits provide cash payment and/or service-in-kind to survivors for relief of problems associated with member's death and burial.

- .. Findings: DoD conducts biennial review of Interment Allowance; burial is Government obligation, not part of compensation; family of deceased may be unable to afford travel to burial site.
- Recommendations: future QRMCs should not review burial benefits; Government should authorize allowance for round trip travel between last duty station and burial site (for spouse and dependent children or natural parents in absence in the absence of dependents).
- Legislative Action Required: Amend Title 10 U.S.C. to authorize payment of recommended travel allowance.

VI. SPECIAL AND INCENTIVE PAYS.

A. PURPOSE. The Special and Incentive (S&I) Pays review was conducted for the purpose of determining if these pays are fulfilling the need for which they were intended based on current and projected force management considerations and cost effectiveness, thereby identifying their ultimate contribution to the national defense. Those judged to be contributory were recommended for retention and, in some cases, enhanced. Those that were not contributory were either recommended for elimination or restructured to improve their effectiveness and cost efficiency. During the review, it was assumed that the Uniformed Services will continue to require certain S&I pays in order to attract and retain the necessary number and mix of appropriate skills and experienced personnel to support mission readiness. Although the total dollar amount (1.5 to 1.7 billion) of these pays is only 6-7% of the annual amount of basic pay, they are essential to our ability to attract and retain the proper number of quality careerists. In fact, their importance and additional use may increase in the future as the quality of the force becomes even more critical.

B. SCOPE. The scope of the study was rather extensive, in that, all the S&I pays contained in Title 37, U.S.C., Chapter 5 were reviewed except those specifically designated solely for the Reserves. A proposed pay for investigators submitted by the Air Force was also evaluated. Although not in the category of special pays, Family Separation Allowance (Type II) was included based on a commitment made by DASD (MP&FM) in 1981 that it be referred to the next QRMC for study. During the course of the analysis, it became evident that several other related issues required some investigation apart from the individual analysis for each pay. These included: the Multiple Pay Issue which is defined as the receipt of two or more S&I pays associated with the same occupational skill, such as demolitions; Wartime Considerations pertaining to the authorization of S&I pays upon declaration of war or national emergency; the impact of S&I pays on quality; and the officer/enlisted payment differential concerning certain Hazardous Duty Incentive Pays.

C. DATA SOURCES. The primary sources of data were the Service Staffs and the Defense Manpower Data Center (DMDC). Numerous other public and private agencies were extremely helpful and provided data that was valuable to the overall analytical effort. Although not a major data source, field interviews were conducted at twenty-eight locations throughout the country to obtain first-hand impressions from individuals either drawing S&I pays or involved with their utilization in various occupational skills. Group discussions were held with officers and enlisted personnel representing operational and support units from all the DoD Services plus the Coast Guard.

D. METHODOLOGY. Each S&I pay was examined for suitability of purpose to determine if it is required in order that the Services can attract and retain personnel in sufficient numbers to meet their needs or, in some cases, to provide the proper recognition for certain duties.

Appropriateness of rates for each pay was also evaluated to ascertain if the rates are properly structured and set at the levels necessary to effect the desired force structure behavior. The analysis in certain areas was necessarily limited because of the unavailability of data, the newness of the pay, or the recent changes in the rate of payment. Additionally, it was sometimes difficult to determine the total effectiveness of certain pays when multiple conditions existed. It should be noted, however, that great reliance was placed on the individual analyses since, in most cases, each pay must stand on its own merit in light of the number of people who draw only one S&I pay. Although limited by data in some areas, this review still constitutes the most complete and most comprehensive treatment of Special and Incentive pays ever undertaken. It should, therefore, serve as a benchmark for subsequent S&I studies and/or legislative proposals in the years to come. The multitude of data, both hard copy and on magnetic tape, is invaluable and should be of great benefit to future QPMC efforts if maintained and updated.

E. FINDINGS AND RECOMMENDATIONS.

1. General.

a. except for the following, all S&I pays were found to be necessary:

- Leprosarium Duty Pay
- Glider Duty Pay
- Proficiency Pay - selected categories
- Nuclear Annual Incentive Bonus - recommended phase out
- (Proposed) Intelligence and Investigator Pay

b. Flexibility must be retained for the Services' effective use of S&I pays, especially in view of differing Service supply and demand conditions.

c. Bonuses should be paid in lump sum to be cost effective and achieve the desired behavior.

d. Short-term officer bonuses were considered less effective than desired, e.g., one-year Aviation Officer Incentive Pay contracts or Nuclear Officer Annual Incentive Bonuses.

e. A general updating (increase) of rates resulted for the majority of the pays reviewed.

f. The newness of certain pays or rates precluded a complete analysis in some instances.

g. The lack of meaningful data limited the analysis of most medical pays.

h. The officer/enlisted differential was eliminated for the following the Hazardous Duty Incentive Pays:

- | | |
|------------------------------|-------------------------|
| -- Parachute Duty | -- Flight Deck Duty |
| -- Demolition Duty | -- Toxic Fuels and |
| -- Experimental Stress Duty | Propellants |
| -- Non-Crewmember Flight Pay | -- Toxic Pesticides and |
| | Dangerous Organisms |

i. The following pays required restructuring to improve effectiveness:

- | | |
|----------------------------|-------------------------|
| -- Proficiency Pay | -- Aviation Officer |
| -- Certain Places Pay | Continuation Pay |
| -- Flight Pay (Crewmember) | -- Nuclear Continuation |
| | Pay |

j. The eligibility criteria was tightened in the following pays to insure proper utilization:

- | | |
|--------------------------------------|-----------------------|
| -- Hostile Fire (Danger) Pay | -- Certain Places Pay |
| -- Aviation Officer Continuation Pay | |

k. Some provisions of the following pays were made less restrictive to improve usefulness

- | | |
|--------------------|---------------------------------|
| -- Proficiency Pay | -- Selective Reenlistment Bonus |
| -- Career Sea Pay | -- Responsibility Pay |

l. Additional provisions were recommended for these Hazardous Duty Incentive Pays:

- | | |
|-------------------------|--------------------------|
| -- Parachute Pay (HALO) | -- Toxic Fuels (chemical |
| | munitions) |

m. The multiple pay condition clouded the ability to isolate the effectiveness of several pays, although no abuse was detected.

n. A consistent policy regarding payment of S&Is during wartime needs to be established.

o. An in-depth analysis of quality-related issues was not possible and requires further study because of.

- minimal documentation of Service selectivity
- changing definition of quality
- lack of standards or criteria necessary to tie S&I pays to quality

2. Individual Special and Incentive Pays. For simplicity and ease of reference, abbreviated names of the S&I pays are used.

a. Hazard Related.

(1) Air Weapons Control Officer (AWCO) Flight Pay - an incentive for performance of hazardous duty aboard an airborne warning and control system (AWACS) aircraft, while serving as AWCO.

- Findings: valid need; too new to realistically evaluate.
- Recommendation: retain in current form.
- Legislative Action Required: None.

(2) Demolition Duty Pay - special compensation for engaging in hazardous duties involving use of demolitions.

- Findings: valid need; rates should be \$110 per month for officers and enlisted.
- Recommendation: retain pay; increase enlisted rates to \$110 per month.
- Legislative Action Required: Amend 37 U.S.C. 301(c)(1) to increase enlisted rate to \$110.

(3) Experimental Stress Duty Pay - an incentive for performance of hazardous duty while participating in acceleration/ deceleration testing, thermal stress experiments, or high/low-pressure chamber duty.

- Findings: valid need; rates should be \$110 per month for officers and enlisted.
- Recommendation: retain pay; increase enlisted rates to \$110 per month.
- Legislative Action Required: Amend 37 U.S.C. 301(c)(1) to increase enlisted rate to \$110.

(4) Flight Pay (Crewmember/Non-Crewmember) - an incentive for performance of hazardous duty involving aerial flight.

- Findings:
 - Crewmember: valid need; increased rates required; reestablishment of officer rates warranted.
 - Non-Crewmembers: valid need; rate should be \$110 per month for officer and enlisted.
- Recommendation:

-- Crewmember: increase rates; reestablish officer rates.

-- Non-Crewmember: increase enlisted rate to \$110 per month.

- Legislative Actions Required: Amend 37 U.S.C. 301(b) to increase rates for enlisted crewmembers to maximum of \$200; amend 37 U.S.C. 301(b) to include officer rates to maximum of \$250; amend 37 U.S.C. 301(c)(1) to increase enlisted rate to \$110.

(5) Flight Deck Duty Pay - recognition for performance of hazardous duty while participating in flight operations on flight deck of carrier or ship from which aircraft are launched and recovered.

- Findings: valid need; rates should be \$110 per month for officers and enlisted.
- Recommendation: retain pay; increase enlisted rates to \$110 per month.
- Legislative Action Required: Amend 37 U.S.C. 301(c)(1) to increase enlisted rate to \$110.

(6) Glider Duty Pay - an incentive for performance of hazardous duty involving participation in glider flights.

- Findings: no valid need; pay under crewmember/non-crewmember section possible.
- Recommendation: repeal provision for duty in gliders.
- Legislative Actions Required: Repeal provision 301(a)(3) of Title 37 U.S.C. referring to gliders.

(7) Leprosarium Duty Pay - an incentive for hazardous duty involving intimate contact with persons afflicted with leprosy.

- Findings: no valid need; recipients are not exposed to sufficient hazard to warrant special pay; no problem manning Federal Leprosaria.
- Recommendation: repeal pay; include "save pay" provision.
- Legislative Action Required: Repeal provision 301(a)(5) of Title 37 U.S.C. referring to leprosy to include "save pay" provision.

(8) Parachute Duty Pay - an incentive for performance of hazardous duty involving parachute jumping.

- Findings: valid need; rates should be \$110 per month for officer and enlisted; other than HALO jumpers; HALO jumpers should receive differential in recognition of increased risks.
- Recommendations: retain pay; increase enlisted rates to \$110 per month; pay HALO jumpers 50% above basic jumpers.
- Legislative Actions Required: Amend 37 U.S.C. 301(c)(1) to increase enlisted rate to \$110. Add provision for HALO jumpers at a rate of 50% above regular jumpers.

(9) Toxic Fuels and Propellants Duty Pay - an incentive for performance of hazardous duty involving servicing of aircraft or missiles with highly toxic fuels or propellants.

- Findings: valid need; rates should be \$110 per month for officers and enlisted; make chemical munitions personnel also exposed to unusual hazards.
- Recommendations: retain pay; increase enlisted rates to \$110 per month; add chemical munitions personnel to eligibility criteria.
- Legislative Actions Required: amend 37 U.S.C. 301(c)(1) to increase enlisted rate to \$110; amend 73 U.S.C 301(a)(12) to include chemical munitions.

(10) Toxic Pesticides and Dangerous Organisms Duty Pay - an incentive for performance of hazardous duty involving frequent exposure to toxic pesticides or live dangerous viruses or bacteria.

- Findings:
 - Toxic pesticides: valid need; too new to properly evaluate, but rates should be consistent with other hazard related pays.
 - Dangerous Organisms - no current need but may be in future.
- Recommendations: retain both categories of pay; make rates consistent with other Hazardous Duty Incentive Pays.

- Legislative Action Required: amend 37 U.S.C. 301(c)(1) to increase enlisted rate to \$110.

b. Incentive.

(1) Aviation Career Incentive Pay (ACIP) - to increase ability of Uniformed Services to attract and retain officer volunteers in an aviation career.

- Findings: valid need; current rates adequate thru FY87; rates insufficient to support significant growth; properly targeted; "gate" system effective.
- Recommendations: retain pay; evaluate effectiveness of rates no later than end FY86.
- Legislative Action Required: None.

(2) Aviation Officer Continuation Pay (AOCP) - to help alleviate shortages in aviation specialties as determined by Secretary of Service.

- Findings: valid need; effective for Navy pilots and NFOs; should use until inventory levels adequate; effective for Marine Corps in the past but not now; pay not effective for aviators with more than 11 years of service; should limit to aviators with 6 through 10 years of service; 1-and 2-year contracts not effective in junior and mid-career years; 3-and 4-year minimum commitments should be established; lump sum payments more cost effective; AOCP should be kept for possible future application.
- Recommendations: retain pay; continue for Navy pilots and NFOs until inventories adequate; discontinue for Marine Corps until necessary; limit eligibility to 6 thru 10 years of service; establish 3-and 4-year minimum contracts; pay lump-sum.
- Legislative Actions Required: amend 37 U.S.C. 301b(a)(4) to read 6 to 10 years of service vice 6 but less than 18 years of service; amend 37 U.S.C. 301b(a)(5) to require 3-and 4-year minimum contracts vice at least one year.

(3) Special and Continuation Pays for Dentists - to provide special compensation to attract and retain officer volunteers in the discipline of dentistry.

- Findings: valid need; maintain in present form.
- Recommendation: retain pays in present form.

- Legislative Action Required: None.

(4) Diving Duty Pay - to increase ability of Uniformed Services to attract and retain sufficient volunteers for diving duties.

- Findings: valid need; rates too new to properly evaluate; rates should be reviewed in 1984; divers not being recognized for all hazards to which exposed.
- Recommendations: retain pay; review after July 1984; entitle divers to no more than two Hazardous Duty Incentive Pays.
- Legislative Action Required: Amend 37 U.S.C. 304(c) to entitle divers to receive not more than two additional payments under 37 U.S.C. 301.

(5) Engineering/Scientific Officer Continuation Pay - to provide an incentive for officers with certain engineering/scientific skills to continue serving in the military in those skills.

- Findings: valid need; maintain in present form; all Uniformed Services should be eligible.
- Recommendation: retain pay in present form; authorize for Uniformed Service Veterans Forces.
- Legislative Action Required: Amend 37 U.S.C. 315(a) to authorize pay for "Uniformed Services" vice "armed forces".

(6) Enlistment Bonus (EB) - to increase the number of initial enlistments in military specialties experiencing personnel shortages.

- Findings: valid need; cost effective and payment limits are appropriate.
- Recommendation: retain bonus in present form.
- Legislative Action Required: None.

(7) Nuclear Officer Pays - to induce nuclear-trained officers to remain on active duty for 4 more years; to improve retention of junior and mid-grade nuclear officers; and to induce volunteers to apply for nuclear training.

- Findings: valid need for some nuclear pays exists; Annual Incentive Bonus should be phased out NLT FY90 provided recommended enhancements to Contin-

ation Pay have been made and proven effective; Continuation Pay should be modified to provide 3-, 4-, and 5-year contracts instead of 4-year contracts only; lump sums should be authorized; a maximum of 4 Continuation Pay agreements should be allowed up to 24 years of service; the Accession Bonus should be retained in its present form; the Special Pay for Nuclear Qualified Enlisted members should be repealed.

- Recommendations: begin phase-out of Annual Incentive Bonus by end FY90, provided recommended enhancements to Continuation Pay have been made and proven effective; authorize 3-, 4-, and 5-year contracts; authorize up to 4 agreements not beyond 24 years of service; pay in lump sum only; retain Accession Bonus in present form; repeal Special Pay for Nuclear Qualified Enlisted members.
- Legislative Actions Required: conditional phase-out of provision in 37 U.S.C. 312c (Annual Incentive Bonus); amend 37 U.S.C. 312(a)(4) to allow for 3-, 4-, and 5-year contracts vice one period for 4 years. Amend 37 U.S.C. 312(b) to allow for a maximum of 4 agreements up to 24 years of service. Amend 37 U.S.C. 312(a)(4) to allow for lump sum vice yearly installments. Repeal 37 U.S.C. 312a, Nuclear Pay for enlisted members.

(8) Special Pays for Optometrists and Veterinarians - to increase the ability of the Uniformed Services to attract and retain officer volunteers in optometry and veterinary service.

- Findings: valid need; maintain pays in present form.
- Recommendation: retain pays in present form.
- Legislative Action Required: None.

(9) Overseas Duty Extension Pay - an incentive for enlisted personnel in certain skills to extend their tours overseas.

- Findings: valid need; pay too new to properly evaluate.
- Recommendation: retain pay in present form.
- Legislative Action Required: None.

(10) Medical Officer Pays - an incentive to increase the ability of the Uniformed Services to attract and retain officer volunteers in the disciplines of Medicine and Osteopathy.

- Findings: valid need; maintain present structure.
- Recommendation: retain present structure of medical pays.
- Legislative Action Required: None.

(11) Proficiency Pay - to provide attraction and retention for shortage enlisted specialties; to attract volunteers for unique duty assignments outside normal career areas; and, to stimulate outstanding performance in enlisted specialties.

- Findings: discontinue pay in present form; eliminate Pay Grade Method; eliminate Shortage Specialty Pay Category, provided proposed enhancements to SRB program are adopted; Include "save pay" provisions; eliminate Superior Performance Pay Category -- incorporate Coast Guard requirements into Special Duty Assignment Pay; restructure Special Duty Assignment Pay to replace all of Proficiency Pay system; enhance rates of Special Duty Assignment Pay -- eliminate manning and volunteer requirements.
- Recommendations: restructure pay; eliminate Pay Grade Method; eliminate shortage Specialty Pay category, provided proposed enhancements to SRB are adopted; include "save pay" provision; eliminate Superior Performance Pay category; establish new Special Duty Assignment Pay; enhance rates to maximum of \$275 per month; eliminate manning and volunteer requirements.
- Legislative Actions Required: amend 37 U.S.C. 307 by rewriting major portions to replace Proficiency Pay with Special Duty Assignment Pay (SDAP) to include name change, eligibility requirements, new rates, conditions for elimination of SSP, and "save pay" provision for SSP; provide for participants in any pilot program which relies a Proficiency Pay as it is currently structured at time of inactivation to receive SDAP at the old Proficiency Pay rate.

(12) Career Sea Pay - to provide recognition of arduous duty at sea and improve retention in sea-service skills.

- Findings: valid need; current rates appropriate but need incremental rates beyond 12 years through 20 years; set new maximum at \$410; allow commissioned officers to draw Sea Pay with 3 years sea service regardless of grade.
- Recommendations: retain pay; reexamine rates in about 2 years; establish incremental rates beyond 12 thru 20 years with maximum rate of \$410 per month; entitle commissioned officers with 3 years sea service regardless of grade.
- Legislative Actions Required: amend 37 U.S.C. 305a(b) to expand rate table to include 12 through 20 years of sea service with the maximum at \$410 and expand eligibility for commissioned officers with 3 years of sea service, regardless of grade.

(13) Selective Reenlistment Bonus (SRB) - an incentive to enlisted members in certain specialties to reenlist for obligated service.

- Findings: valid need; should be paid in lump sum; dollar ceiling should be removed; forgiveness of obligated service should be eliminated, provided all other enhancements are adopted; Zones A and B are effective; Zone C should be reduced whenever possible as it is marginally effective; a "7th Multiple" should be added.
- Recommendations: retain pay thru 30 Sep 87; add "7th multiple;" eliminate bonus cap; provide for lump sum only; eliminate forgiveness of obligated service provision provided enhancements are adopted.
- Legislative Actions Required: Amend 37 U.S.C. 308(a)(1) to increase multiple from 6 to 7 and lift pay cap. Amend 37 U.S.C. 308(e) to eliminate forgiveness of obligated service provision based on conditions cited above.

(14) Submarine Duty Pay - an incentive to encourage both officer and enlisted personnel to pursue a career in the submarine service.

- Findings: valid need; should evaluate provision for receipt during training in about 2 years.
- Recommendation: retain pay in present form but review provision for receipt of pay during training in about 2 years.

- Legislative Action Required: None.

c. Other.

(1) Certain Places Pay - an incentive for duty overseas -- has evolved into a token payment for rigorous foreign duty.

- Findings: valid need; new eligibility criteria should be adopted; pay should be restricted to isolated locations where dependents not authorized and environment presents more than normal

discomforts with limited ability to travel; officer and enlisted should draw pay; enhance rates to maximum of \$180; provide "save pay" for individuals currently drawing under present system.

- Recommendations: retain pay but adopt more restrictive eligibility criteria; entitle officer and enlisted to pay; establish graduated rates to maximum of \$180; provide "save pay" for those under current system; include other than just overseas locations that qualify; eliminate prohibition based on residency.
- Legislative Actions Required: amend 37 U.S.C. 305(a) to change rates ranging from \$25 to \$180 per month; amend 37 U.S.C. 305(a) deleting prohibition against payment to personnel serving in United States or its possessions; amend 37 U.S.C. 305(b) deleting prohibition against paying to members who are residents of the state, possession, or foreign country in which serving.

(2) Family Separation Allowance (FSA II) - to reimburse for added expenses that result from family separation.

- Findings: valid need; rates should be increased.
- Recommendations: retain pay; increase rates to \$60 per month.
- Legislative Action Required: amend 37 U.S.C. 427(b) to increase allowance to \$60 per month.

(3) Hostile Fire Pay - to provide recognition to personnel serving in a hostile fire area or to personnel of a vessel, aircraft or unit engaged in hostile action outside a designated hostile fire area.

- Findings: valid need; tighten eligibility criteria; rename "Danger Pay"; increase payment to lowest Hazardous Duty Incentive Pay; develop comprehensive DoD directive.
- Recommendations: retain pay; adopt more restrictive eligibility criteria; rename "Danger Pay"; increase rate to lowest Hazardous Duty Incentive Pay; develop DoD directive.
- Legislative Action Required: Amend 37 U.S.C. 310(a) to include tightened eligibility criteria and increase payment to lowest Hazardous Duty Incentive

Pay. Amend 37 U.S.C. 310 to change name to duty subject to danger.

(4) Proposed Intelligence and Investigator Pay - an incentive for performance of hazardous duty for personnel in intelligence and investigative positions.

- Finding: no valid need.
- Recommendation: do not adopt proposed pay.
- Legislative Action Required: None.

(5) Responsibility Pay - recognition for personnel in selected duties of unusual responsibility.

- Findings: valid need; expand eligibility to include O-1/O-2 and W-1 through W-4; increase rates.
- Recommendations: retain pay; expand eligibility to O-1/O-2 and W-1 thru W-4; allow not more than 5% in these pay grades; increase rates.
- Legislative Actions Required: amend 37 U.S.C. 306(a) to include O-1, O-2, W-1 through W-4, limit payment of to 5% of officers in these pay grades; increase rates to maximum of \$200.

d. Related Issues

(1) Multiple S&I Pays - condition that occurs when an individual draws two or more Special or Incentive pays specifically targeted to the same or related occupational skills during same year.

- Findings: practice of applying combination of

pays is efficient; no abuse detected; over 80% of multiple conditions are enlisted personnel in grades E-3 thru E-6.

- Recommendation: periodically review to insure use only when necessary.
- Legislative Action Required: None.

(2) Wartime Application of S&I Paya - currently various provisions to discontinue S&I pays during wartime or periods of national emergency exist; with some, the issue is not addressed.

- Findings: a plan for the application of S&I pays should be available for immediate implementation during wartime or national emergencies.
- Recommendation: form a joint service group to develop a plan.
- Legislative Action Required: None at present.

(3) Quality - a determination of the impact Special and Incentive pays have or should have on quality force considerations.

- Findings: little direct relationship between quality and S&I pays; potential exists for improving relationship; requires further study.
- Recommendations: utilization of S&I pays to assist in attracting and retaining quality personnel should be studied further by DoD.
- Legislative Action Required: None at present.

(4) Officer/Enlisted Differential - during the course of the study the QRM staff became convinced that for seven of the Hazardous Duty Incentive Pays, the rate of payment should be the same for officers and enlisted, unlike the current system which has a differential. This issue was briefed to the Steering Group.

- Findings: the officer/enlisted differential for the seven pays should be eliminated.
- Recommendation: a decision was made during the Steering Group meeting to recommend elimination.
- Legislative Action Required: addressed individually in the issue papers of each of the seven paya affected.

F. ESTIMATED COSTS OF QPMC RECOMMENDATIONS. Estimated costs for FY85, based upon assumed Congressional enactment of QPMC recommendations for S&I pays, appear in the tables below. Estimates are as of December 1, 1983.

Category I - Costs reflected in this table are additive to current projected budget levels for these pays and are very tentative depending on changing manpower requirements, "save pay" provisions, and conditional situations associated with several recommendations.

Category I - Estimated Additive Costs

<u>Pay</u>	<u>\$ in millions</u>
Aviation Officer Continuation Pay	21.3
Demolition Duty Pay	1.1
Experimental Stress Duty Pay	.2
Flight Pay (Crew/Non-Crew)	13.9
Flight Deck Duty Pay	4.6
Parachute Duty Pay	9.2
Toxic Fuels & Propellants Pay	.7
Toxic Pesticides & Dangerous Organisms Pay	.02
Diving Duty Pay	2.2
Nuclear Officer Pay (portion shifting from Annual to COPAY)	2.2
Proficiency Pay (new Special Duty Assignment Pay)	25.0
Career Sea Pay	1.7
Family Separation Allowance (Type II)	42.6
Hostile Fire pay (renamed Danger Pay)	.1
Responsibility Pay	.5
TOTAL	125.32

Category II - Budget changes reflected in the following table are necessary to accommodate a shift in the method of payment for certain pay categories but do not represent increases in the benefit level caused by rates or structural changes to these pays. Payment by lump-sum instead of installment payments results in a temporary budget increase due to the obligation incurred in the past but not reflected in the budget for the year in which the obligation was made. As these obligations are reduced, the budget will return to levels lower than projected FY85 levels because of the increased effectiveness of lump-sum bonuses on retention. Exact savings cannot be estimated.

Category II - Estimated Budgetary Impact Due to Shift
in Method of Payment

<u>Pay</u>	<u>\$ in millions</u>
Selective Reenlistment Bonus	\$300.7
Nuclear Officer Pays	69.2
TOTAL	\$369.9

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OFFICE OF
THE SECRETARY OF DEFENSE

THE WHITE HOUSE

WASHINGTON

August 17, 1982

MEMORANDUM FOR:

THE HONORABLE CASPAR W. WEINBERGER
The Secretary of Defense

SUBJECT: Fifth Quadrennial Review of Military Compensation

Under the provisions of 37 U.S.C. 1008(b), I am required to conduct a complete review of the principles and concepts of the compensation system for members of the uniformed services beginning not later than January 1, 1983. I would like you to be my executive agent for that review, consulting with me as the occasion requires.

Adequacy of military compensation has long been a concern of mine, because I believe that inadequate and inappropriate military compensation jeopardizes the national security. I am particularly interested in your reviewing the military retirement system, with its associated benefits, and the special incentive pay system. I think it best to structure this review around the following question: To what extent do the existing systems contribute to our national defense? To the extent that they contribute, they should be preserved and strengthened. To the extent that they do not, they should be restructured or else be eliminated. A coherent and logical statement of principles and concepts of military compensation in relation to national security objectives should be required from such a review.

I will be looking forward to learning of your progress in this review.

Ronald Reagan



THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

18 AUG 1982

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (MANPOWER, RESERVE
AFFAIRS, & LOGISTICS)

SUBJECT: Fifth Quadrennial Review of Military Compensation

The President, in the attached correspondence, has designated me as his executive agent in conducting a review of the compensation system for members of the uniformed services. I want you to conduct that review in my name. Please begin the planning for that effort immediately and report to me on your progress by 1 October 1982.

As to the details of the review itself, I leave that to you, noting only that the President wants the military retirement system and its associated benefit structure plus the special and incentive pay system reviewed in accordance with his desired perspective. In conducting this review, you are authorized to draw upon material support from the entire Department of Defense, including the unified and specified commands as well as the military departments. This includes personnel as well as such material resources you may require. I will be available for guidance and support as needed, but I would like you to advise me quarterly on the progress of the review.

A handwritten signature in cursive script, reading "Sam E. Rife", is located in the lower right quadrant of the page.

Attachment

PRINCIPAL PARTICIPANTS

Executive Agent - Secretary of Defense Caspar W. Weinberger

Steering Committee

Chairman - Dr. Lawrence J. Korb, Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics)

Deputy Chairman - Deputy Assistant Secretary of Defense (Military Personnel and Force Management)

Lt Gen R. Dean Tice, USA	1 Oct 82 - 31 Aug 83
Lt Gen Edgar A. Chavarrie, USAF	1 Sep 83 - Completion

Assistant Secretary of the Army (Manpower and Reserve Affairs)

Mr. Harry N. Walters	1 Oct 82 - 15 Dec 82
Mr. William D. Clark	16 Dec 82 - Completion
Mr. Delbert L. Spurlock, Jr.	18 Jul 83 - Completion

Assistant Secretary of the Navy (Manpower and Reserve Affairs)

Mr. John S. Herrington	1 Oct 82 - 19 Feb 83
Mr. Chapman B. Cox	20 Feb 83 - Completion

Assistant Secretary of the Air Force (Manpower, Reserve Affairs and Installations)

Mr. Tidal McCoy	1 Oct 82 - Completion
-----------------	-----------------------

Deputy Chief of Staff for Personnel, United States Army

Gen M. R. Thurman, USA	1 Oct 82 - 21 Jun 83
Lt Gen Robert M. Elton, USA	22 Jun 83 - Completion

Deputy Chief of Staff, Manpower and Personnel, United States Air Force

Gen Andrew P. Iosue, USAF	1 Oct 82 - 14 Jun 83
Lt Gen Kenneth L. Peek, Jr., USAF	15 Jun 83 - Completion

Deputy Chief of Naval Operations (Manpower, Personnel and Training)

VADM Lando W. Zech, USN	1 Oct 82 - 30 Sep 83
VADM William P. Lawrence, USN	1 Oct 83 - Completion

Deputy Chief of Staff for Manpower, United States Marine Corps

Lt Gen Charlea C. Cooper, USMC	1 Oct 82 - 14 Jun 83
Lt Gen William R. Maloney, USMC	15 Jun 83 - Completion

Director, J-1 (Manpower and Personnel), Joint Chiefs of Staff

Brig Gen Mary M. Marsh, USAF	1 Oct 82 - Completion
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Director, NOAA Corps, National Oceanic and Atmospheric Administration

RADM K.E. Taggart, NOAA	1 Oct 82 - Completion
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Deputy Director, Office of Personnel Management, U.S. Public Health Service

RADM James H. Eagen, USPHS	1 Oct 82 - Completion
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Chief, Office of Personnel, U.S. Coast Guard

RADM Richard P. Cueroni, USCG	1 Oct 82 - Completion
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Maj Gen Stuart H. Sherman, Jr, USAF Staff Director	1 Oct 82 - Completion
CAPT Norman A. Mayo, USN Deputy Staff Director	1 Oct 82 - Completion
LtC Loren A. Wasson, USMC Staff Coordinator	14 Oct 82 - Completion

Uniformed Services Estate Program

Col Carl F. Reiber, USA - Chairman	1 Oct 82 - Completion
CAPT Alan M. Shriver, USN	9 Oct 82 - 30 Sep 83
LtC John E. Van Duyn, USAF	12 Oct 82 - Completion
LtC George G. Peery, III, USA	20 Oct 82 - Completion
CDR Robert A. Schreiber, USN	12 Oct 82 - Completion
Maj Terry N. Hilderbrand, USA	20 Oct 82 - 14 Oct 83
Maj Roy E. Smoker, USAF	12 Oct 82 - Completion

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LCDR Sheilah M. Hunter, USN	12 Oct 82 - Completion
LCDR Jonathan M. Vaughn, USCG	1 Dec 82 - Completion
Maj Joseph P. Seletsky, USA	26 Oct 82 - 30 Sep 83
Capt Barry Fayne, USAF	12 Oct 82 - Completion
Capt Jack J. Murphy, USAF	12 Oct 82 - Completion

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SP5 Sandra Simon, USA	1 Nov 82 - 18 Apr 83
SP5 Sylvia L. Wortherly, USA	11 Apr 83 - Completion
YN3 Joyce K. Mattie, USN	2 Dec 83 - Completion

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Col Philip Frederick, USAF	1 Mar 83 - 31 Jul 83
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Capt David G. Linnebar, USMC	1 Jun 83 - 31 Aug 83
Capt Michael A. Kirby, USA	1 Jun 83 - 29 Jul 83
Dr. Wendell Waite (Dept of Navy)	1 Jun 83 - 31 Aug 83
Paul Hogan, OASD (MRA&L)	1 Jun 83 - Completion
Dr. John Warner (Univ. of Clemson)	1 Jun 83 - 31 Jul 83

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Airline Pilot Association, International
Allied Pilots Association
American Airlines, Inc.
American Association of Engineering Societies
American Dental Association
American Medical Association
American Nuclear Society
Army Mutual Aid Association
Association of Diving Contractors
Association of Naval Aviation
Bureau of Labor Statistics
Central Intelligence Agency
Combat Pilot's Association
Commuter Airline Association of America
Congressional Budget Office
Control Demolition Corporation
Council of Economic Advisors

Defense Technical Information Center
Delta Airlines, Inc.
Department of Energy
Department of Labor
Department of Transportation, Maritime Administration
Drug Enforcement Agency
Eastern Airlines, Inc.
Edison Electric Institute
Environmental Protection Agency
Fairfax County Va. Police Department
Federal Aviation Association
Federal Bureau of Investigation
Forest Service
Future Aviation Professionals of America
General Accounting Office
General Motors
General Research Corporation
Helicopter Association, International
Institute for Nuclear Power Operations
International Brotherhood of Electric Workers Union
Jet Research Center, Inc.
Library of Congress
Mary's Help Hospital
Metropolitan Police Department, Washington, D.C.
Montgomery County MD. Police Department
National Aeronautics and Space Administration
National Air Transportation Association
National Business Aircraft Associates
National Hansen's Disease Center
National Pilot's Association
National Science Foundation
Navy Personnel Research and Development Center
New York Bankers Trust
Northwestern University
Nuclear News
Nuclear Regulatory Commission
Oak Ridge Associated Universities
Occupational Safety and Health Administration
Office of Management and Budget
Office of Personnel Management
Piedmont Airlines, Inc.
Professional Pilot Magazine
President's Private Sector Survey Cost Control Group
REHAB, Inc.
Taylor Diving and Salvage Co.
Tennessee Valley Authority
United Airlines, Inc.
U.S. Marshalls Service
U.S. Secret Service
Veterans Administration
Virginia Electric Power Co.
Western Airlines, Inc.

ORGANIZATION OF QMRC REPORT

Executive Summary

Vol I. Uniformed Services Retirement System

- IA. Supporting Appendixes to Uniformed Services Retirement System (A - G)
- IB. Supporting Appendixes to Uniformed Services Retirement System (H - N)
- IC. Supporting Appendixes to Uniformed Services Retirement System (P & Q)
- ID. Retirement System and Survivor Benefits' Data Requests and Responses (Microfiche)
- IE. Additional Data/Background Material/Computer Tape Formats (Microfiche)

Vol II. Uniformed Services Survivor Benefits Program

Vol III. Special and Incentive Pays

- IIIA. Field Interviews (10 bound copies)
- IIIB. Service Responses to Draft Reports (10 bound copies)
- IIIC. Data Requests & Responses (Microfiche)
- IIID. Additional Data/Background Material/Computer Tape Formats (Microfiche)

Vol IV. Fifth QMRC Steering Group & Briefing Activities (unpublished) (original will be bound and stored at MRA&L Compensation)